Pendragon | PLC

Interim Report 2007

FINANCIAL HIGHLIGHTS

	Unaudited 6 months to 30.06.07 £m	Unaudited 6 months to 30.06.06 £m
Revenue	2,702	2,625
Profit before tax and exceptionals	32.7	43.0
Underlying operating margin	2.3%	2.8%
Profit before tax	33.5	51.5
Adjusted earnings per share	3.5p	4.7p
Dividend per share up 38%	2.00p	1.45p
Net assets	337.3	286.5
Gearing	86%	208%

Introduction

Trading performance in the first six months of the year has been affected by a slowdown in consumer demand, as we highlighted in our June trading update. This has led to an oversupply of new cars, forced into the market by manufacturer incentives and pre registrations by dealers and, as a consequence, used car margins have declined. Pendragon's aftersales business has performed well and we have had good results in our support businesses such as Pinewood Technologies and our leasing companies. The group has continued to generate significant amounts of cash which have been used to reduce borrowings and further strengthen our balance sheet.

We are reporting adjusted earnings per share of 3.5 pence for the period compared to 4.7 pence in 2006 and an interim dividend of 2.0 pence per share compared to an interim dividend of 1.45 pence in 2006. The increase in dividend is in line with indications given in our AGM statement and represents an increase of 38%. Operating cash inflow of £128.7 million has enabled us to continue to reduce borrowings and bring gearing down to 86%.

We have generated exceptional property profits of £7.6 million on the sale of nine surplus properties. We also incurred £2.8 million of costs related to closure of dealerships which we have treated as an ordinary trading item in the accounts. This is the first part of the £12.0 million of costs, excluding goodwill impairment, which we highlighted in our AGM statement, that would be incurred to cease operating and close 26 new car franchises. The impairment of goodwill relating to these 26 franchises is £6.8 million and is treated as an exceptional operating item.

Our dealerships in Germany were sold at the end of June which brought to an end many years of operating in that market. Latterly the dealerships had become a relatively small part of the group and were no longer deemed to be a core activity. The results of the German operations are shown separately as a loss from discontinued operations of £1.5 million.

Results

The results for the six months to 30 June 2007 are summarised as follows:

	2007	2006
	£m	£m
Revenue	**2,702.4**	2,625.1
Underlying operating profit	**61.3**	73.5
Exceptional operating costs	**(6.8)**	(3.4)
Operating profit before other income	**54.5**	70.1
Other income - gain on sale of property	**7.6**	11.9
Operating profit	**62.1**	82.0
Finance costs	**(28.8)**	(30.8)
Share of joint venture profit	**0.2**	0.3
Profit before tax	**33.5**	51.5
Tax	**(4.2)**	(15.7)
Discontinued operation	**(1.5)**	(0.7)
Profit after tax	**27.8**	35.1
Earnings per share - basic	**4.4p**	5.6p
Earnings per share - adjusted	**3.5p**	4.7p
Dividend per share	**2.00p**	1.45p

Revenue The net effect of acquisitions and disposals of dealerships over the past eighteen months has been to increase revenues year on year by £77.3 million to £2,702.4 million. On a like for like basis revenue is down 3.0% which is principally due to reduction in the number of vehicle sales. This has been due to the difficult market for used car sales in the UK over the past six months and has meant that the number of used cars we have sold in the first half has been behind our planned volumes. Margins have been lower which are the main factors leading to profits being behind where we expected them to be for the first half.

Underlying operating profit was £61.3 million compared to £73.5 million last year. The underlying operating profit margin was 2.3% against 2.8% for the same period in 2006. A number of factors have contributed to the movement in operating profits in addition to the reduction in margins on car sales. The other items relate to increased rents and dealership closure costs. Although having little impact on profit before tax, operating profits are reduced year on year by increased property rents of £8 million after our successful property joint venture sale and lease back at the end of 2006. We have also included in operating costs £2.8 million by way of one off dealership closure costs. We are pleased with the performance of our support businesses which have continued to perform well and have increased profits this year by £2.0 million. In the first half we have also had the benefit of savings relating to Vardy head office activities which were £2.0 million more than in the first six months last year.

Exceptional operating costs of £6.8 million relate to the goodwill impaired on all the dealerships which are to be sold or closed as part of our accelerated closure of selected underperforming dealerships. Following the acquisition of Reg Vardy we reviewed the franchise portfolio and identified a number of dealership properties that had greater value for alternative use or where the level of dealership profitability was insufficient to justify continued trading and further investment. We announced the closure and disposal programme in our AGM statement against which we have incurred £2.8 million of costs in the first half. We have treated this as an ordinary trading item in the accounts. We aim to complete this closure programme by this time next year releasing an estimated £22 million of cash.

Other income is the profit on the disposal of surplus property assets resulting from our ongoing active management of our property portfolio. The total proceeds of these sales were £25.5 million of which £7.6 million was profit. Profits from the sale of surplus properties have been a regular feature over the past years and we expect that a further £20 million of profits on property sales will be generated over the next 15 months.

Financing costs have reduced by £2.0 million to £28.8 million. Our borrowings reduced at the end of 2006 following a property joint venture transaction. The benefit of this to our interest costs has in part been offset by the increase in interest rates since the first half of 2006. The increase in interest rates is equivalent to £4.0 million of additional cost. We have also financed the Vardy acquisition for the full six months this year whereas in 2006 it was for four months.

Adjusted profit before tax of £32.7 million (2006: £43.0 million) is underlying operating profit of £61.3 million (2006: £73.5 million) less finance costs and share of joint venture profit of £28.6 million (2006: £30.5 million).

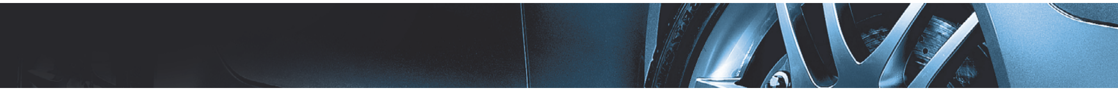
A summary of revenues and operating profits by division is summarised below:

£m	2007		2006	
	Revenue	Operating Profit	Revenue	Operating Profit
Stratstone	1,103.0	23.6	1,097.2	31.5
Evans Halshaw	1,450.3	22.8	1,366.9	28.7
USA	94.8	2.8	108.1	3.2
Support businesses	91.0	12.1	82.0	10.1

Motor Retail Business

Our franchised motor retail activities are principally in the UK with a well established small business in the USA. We currently operate 359 franchise points, of which nine are in the USA. We also operate a number of franchised commercial truck businesses.

UK Overall national new car registrations increased by 2.0% in the first six months of this year compared to the first six months of 2006. The manufacturers we represent achieved only 0.7% growth. However, registrations do not necessarily reflect consumer demand in the short term and we have seen a slowdown in consumers willing to commit to buying new cars.



In order to keep registrations up in this type of environment we are seeing more manufacturer incentives and pre registrations by dealers which have led to an adverse impact mainly on used car margins.

In the UK we operate 350 franchised points of which 165 are prestige, branded as Stratstone, 164 are Evans Halshaw volume dealerships and 21 are truck dealerships trading under the Chatfields brand. The results are summarised in the tables below. Chatfields is included in the results of Stratstone.

Stratstone is the UK's leading prestige motor car retailer and its results for the first six months of this year are as follows:

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %	Total Units Sold '000	Gross Profit per Unit £
Existing	1,094.8	140.2	12.8	24.1	2.2		
Disposed	8.2	1.3	16.1	(0.5)	(6.3)		
Total 2007	**1,103.0**	**141.5**	**12.8**	**23.6**	**2.1**	**38.6**	**1,868**
Total 2006	1,097.2	145.0	13.2	31.5	2.9	38.9	2,018

Revenue and units sold within our Stratstone franchises are in line with last year and on a like for like basis they were down 4%. Whilst in volume terms this is a creditable performance in a difficult market, we were disappointed not to have achieved our expectations to increase revenue by around £40 million which would have meant like for like volumes would have been in line with last year.

Gross margin has been lower in the period due to more difficult trading conditions for most of our franchises. Last year we had the benefit of new products such as Range Rover Sport which contributed strongly. Operating profit reduced by £7.9 million to £23.6 million. Whilst around a third of this arises from a reduction in gross profit, the remainder is split between the increase in rent and an increase in other property costs such as heat, light, power and rates.

Since rebranding our prestige dealerships as Stratstone we have invested in a number of promotional events and are pleased with the way the recognition of the brand is gaining momentum.

Evans Halshaw is the leading volume car retailer in the UK and its results for the first six months of this year are as follows:

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %	Total Units Sold '000	Gross Profit per Unit £
Existing	1,436.7	175.4	12.2	25.1	1.8		
Disposed	13.6	1.2	8.9	(2.3)	(17.1)		
Total 2007	**1,450.3**	**176.6**	**12.2**	**22.8**	**1.6**	**137.0**	**756**
Total 2006	1,366.9	182.0	13.3	28.7	2.1	131.4	819

Revenue increased by £83.4 million with units sold up 4.3%. This increase is mainly due to having a full six month contribution from Vardy dealers acquired in February last year. This is a very creditable performance under difficult market conditions. We had, however, planned revenue to be approximately £30.0 million higher which we have not achieved due to like for like vehicle units being down 2.0%.

Gross profit in most franchises has suffered in the market downturn, with profit per unit down £63, which has led to operating profits being down by £5.9 million. We have continued to achieve cost savings within the enlarged group. The cost savings have reduced the impact of the fall in gross profit and increase in rents.

We were pleased to announce the acquisition of 19 dealerships from Dixon Motors last week for £17.0 million. These have been rebranded as Evans Halshaw and we expect them to make a positive contribution to group profits in 2008.

USA The market for new cars in the USA in the first half of 2007 was down by 1.5% to 8.2 million registrations. We represent a small number of brands in California: Jaguar, Land Rover, Aston Martin and SAAB. Nationally, Land Rover sales were in line with last year with sales of the new Freelander offsetting the reduction in other model sales. Jaguar volumes fell 26%, with all models down with the exception of XK. Aston Martin and SAAB sales were marginally down. We do not see any near term improvement in the sales performance of Jaguar until the new S Type is launched.

The results for the first half of 2007 are summarised as follows:

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %	Total Units Sold '000	Gross Profit per Unit £
Total 2007	**94.8**	**15.9**	**16.8**	**2.8**	**3.0**	**3.0**	**2,957**
Total 2006	108.1	17.6	16.2	3.2	3.0	3.2	2,837

Revenue is down due to two principal factors; at the end of 2006 we disposed of two loss making dealerships which in the first half of 2006 contributed sales of £8.5 million; and adverse exchange rate movements. Gross margins have strengthened reflecting the richer mix of businesses whilst overall operating margins have remained strong at 3%.

Germany We completed the disposal of our remaining four German dealerships at the end of June 2007. The net proceeds of the sale were £6.3 million. In the period prior to disposal the dealerships made a loss before tax of £1.2 million (2006 £0.7 million) with a further loss of £0.3 million arising on the disposal. The German business has been classified 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.

Support Services We provide a broad range of support services both to the Pendragon group and to external customers. The services are provided by a number of specialist businesses which consist of contract hire and leasing, dealership management software systems and wholesale parts distribution.

The results for the first half of 2007 are summarised as follows:

£m	Revenue	Gross Profit	Gross Margin %	Underlying Operating Profit	Underlying Operating Margin %
Total 2007	**91.0**	**30.1**	**33.1**	**12.1**	**13.3**
Total 2006	82.0	26.4	32.2	10.1	12.4

This is a strong performance from this division and reflects the investments in people and systems we have made over the past few years. Margins have been improved and operating profit has increased by £2.0 million. Our contract hire and leasing business operates a fleet of almost 18,000 units. We have been more cautious than many of our competitors on setting residual values over the past twelve months hence our fleet size has reduced slightly. We believe this to be the correct approach to residual value setting in an uncertain market.

Pinewood Technologies, our computer software company, has seen increased demand for its products from external customers as well as rolling out the new Pinnacle dealer management system to our own sites. In total we now have over 10,000 user licences in place, an increase of 30% from the beginning of the year. To date we have implemented Pinnacle at 299 of our sites and are installing the 300th system in the group today at our Ford dealership in Glasgow. This then leaves 56 sites to complete by year end.

Our wholesale parts business, Quickco, has had a good first half with revenues maintained and profits up from last year. This has been achieved by extending the product range to include higher margin parts and by containing overhead costs.

Finance

We have a strong balance sheet with freehold property of £245.2 million which includes surplus property earmarked for disposal. Borrowings at 30 June 2007 were £289.6 million, down £80.1 million since the beginning of the year. At 86% we are pleased to have achieved the target level of gearing six months ahead of the plan that we set ourselves when we acquired Reg Vardy in February 2006.

Operating cash inflow for the first six months was £128.7 million, which compares with £157.7 million generated in 2006. The operating cash inflow includes a reduction in working capital investment of £37.2 million (2006: £52.7 million).

Net investment in property, plant and equipment for the six months was £20.8 million (2006: £8.1 million). This includes investment in two new properties acquired for future development, refurbishments plus the net increase in plant and machinery, the contract hire fleet and service loan cars. Proceeds from property disposals were £25.5 million (2006: £32.4 million). In addition to this £17.9 million was raised from business disposals (2006: £22.2 million).

Current Trading and Prospects

Our current trading performance is in line with our recent trading update. We expect the used car market to remain subdued for the remainder of the year due to the uncertain interest rate environment and manufacturer incentives on new cars. Our aftersales business and support businesses continue to perform well and have been relatively unaffected by the recent consumer slowdown and we anticipate that they will continue to perform well. Our programme of surplus property disposals and selected dealership closures is proceeding well and will contribute to improving profits over the next twelve months.

We have seen a large amount of consolidation in the motor retail sector in the UK over recent years.
In these difficult trading conditions within the sector, acquisition opportunities like the one we announced last week will present themselves to us as smaller players seek an exit. Pendragon has a strong balance sheet and management strength in depth to enable us to continue to grow and build value for long term shareholders. We will remain at the forefront of consolidation in the sector and ahead of the competition in realising scale benefits.

TREVOR FINN
Chief Executive
7 August 2007

Interim Results
for the six months ended 30 June 2007

	6 Months to 30.06.07 £m	6 Months to 30.06.06 £m	12 Months to 31.12.06 £m
Continuing operations			
Revenue	**2,702.4**	2,625.1	5,058.5
Cost of sales	**(2,347.2)**	(2,259.1)	(4,357.2)
Gross profit	**355.2**	366.0	701.3
Operating expenses	**(300.7)**	(295.9)	(561.6)
Operating profit before other income	**54.5**	70.1	139.7
Operating profit before other income, analysed as:			
Before exceptional items	**61.3**	73.5	135.7
Goodwill impairment	**(6.8)**	-	(0.9)
Abortive acquisition costs	**-**	(0.9)	(1.0)
Integration and closure costs	**-**	(2.5)	(4.0)
Gain on curtailment of defined benefit pension schemes	**-**	-	9.9
Operating profit before other income	**54.5**	70.1	139.7
Other income - gain on sale of businesses and property	**7.6**	11.9	24.3
Operating profit	**62.1**	82.0	164.0
Finance costs (note 7)	**(40.3)**	(38.8)	(84.4)
Finance income (note 8)	**11.5**	8.0	17.7
Net finance cost	**(28.8)**	(30.8)	(66.7)
Share of profit before tax from joint venture	**0.3**	0.3	0.5
Share of income tax expense from joint venture	**(0.1)**	-	(0.1)
Share of post tax profit from joint venture	**0.2**	0.3	0.4
Profit before taxation	**33.5**	51.5	97.7
Income tax expense (note 9)	**(4.2)**	(15.7)	(28.9)
Profit from continuing operations	**29.3**	35.8	68.8
Discontinued operation			
Loss from discontinued operation (net of income tax) (note 6)	**(1.5)**	(0.7)	(1.3)
Profit attributable to equity shareholders	**27.8**	35.1	67.5
Earnings per share			
Basic earnings per ordinary share (note 11)	**4.4p**	5.6p	10.7p
Diluted earnings per ordinary share (note 11)	**4.3p**	5.5p	10.6p
Continuing operations			
Basic earnings per ordinary share (note 11)	**4.6p**	5.7p	10.9p
Diluted earnings per ordinary share (note 11)	**4.5p**	5.6p	10.8p
Dividends			
Dividend per share - interim (note 10)	**2.00p**	1.45p	1.45p
Dividend per share - final	**-**	-	2.00p

All amounts are unaudited

CONSOLIDATED BALANCE SHEET

	30.06.07 £m	Restated* 30.06.06 £m	31.12.06 £m
Non-current assets			
Property, plant and equipment	**394.3**	581.1	420.4
Goodwill	**425.9**	471.4	433.8
Other intangible assets	**1.2**	2.3	1.4
Investment in joint venture	**3.4**	2.2	3.0
Total non-current assets	**824.8**	1,057.0	858.6
Current assets			
Inventories	**812.2**	859.7	850.2
Trade and other receivables	**274.7**	310.3	260.9
Cash and cash equivalents	**76.0**	36.2	19.7
Non-current assets classified as held for sale	**53.1**	22.5	38.4
Total current assets	**1,216.0**	1,228.7	1,169.2
Total assets	**2,040.8**	2,285.7	2,027.8
Current liabilities			
Interest bearing loans and borrowings	**(8.4)**	(210.0)	(10.4)
Trade and other payables	**(1,207.2)**	(1,264.1)	(1,171.8)
Deferred income	**(0.9)**	-	(0.9)
Current tax payable	**(29.2)**	(24.6)	(19.5)
Provisions	**(3.5)**	(0.8)	(4.3)
Total current liabilities	**(1,249.2)**	(1,499.5)	(1,206.9)
Non-current liabilities			
Interest bearing loans and borrowings	**(345.9)**	(403.1)	(371.0)
Derivative financial instruments	**(11.3)**	(4.8)	(8.0)
Deferred income	**(20.7)**	-	(21.1)
Deferred tax liabilities	**(39.8)**	(17.1)	(42.0)
Retirement benefit obligations	**(31.2)**	(73.5)	(65.2)
Provisions	**(5.4)**	(1.2)	(7.6)
Total non-current liabilities	**(454.3)**	(499.7)	(514.9)
Total liabilities	**(1,703.5)**	(1,999.2)	(1,721.8)
Net assets	**337.3**	286.5	306.0
Capital and reserves			
Called up share capital	**32.8**	32.8	32.8
Share premium account	**56.8**	56.8	56.8
Capital redemption reserve	**2.5**	2.5	2.5
Other reserves	**12.6**	12.6	12.6
Translation reserve	**(0.3)**	(0.2)	(0.3)
Retained earnings	**232.9**	182.0	201.6
Total equity	**337.3**	286.5	306.0

All amounts are unaudited

*Restated following change of accounting policy in 2006 in respect of recognition of actuarial gains and losses arising on defined benefit pension plans. Full details of the change in policy are presented in the financial statements for the year ended December 2006.

	6 Months to 30.06.07 £m	6 Months to 30.06.06 £m	12 Months to 31.12.06 £m
Cash flows from operating activities			
Profit after taxation	**27.8**	35.1	67.5
Adjustment for income from joint venture	**(0.2)**	(0.3)	(0.4)
Adjustment for interest	**29.4**	31.3	67.6
Adjustment for taxation	**4.2**	15.7	28.9
Operating profit	**61.2**	81.8	163.6
Profit on sale of businesses and property	**(7.3)**	(11.9)	(24.3)
Depreciation and amortisation	**30.1**	34.8	65.1
Share based payments	**0.7**	0.3	0.9
Goodwill impairment	**6.8**	-	0.9
Decrease in working capital	**37.2**	52.7	13.2
Cash generated from operations	**128.7**	157.7	219.4
Net interest paid	**(27.2)**	(29.7)	(67.2)
Taxation paid	**(3.6)**	(15.6)	(24.2)
Net cash from operating activities	**97.9**	112.4	128.0
Cash flows from investing activities			
Business acquisitions (net of cash acquired)	**-**	(458.8)	(466.0)
Proceeds from sale of businesses	**17.9**	22.2	23.1
Investment in joint venture	**(0.1)**	(1.3)	(15.1)
Purchase of property, plant and equipment	**(98.2)**	(85.4)	(171.2)
Proceeds from sale of property, plant and equipment	**77.4**	77.3	388.9
(Payments) / receipts from sales of own shares	**(0.4)**	0.5	1.7
Net cash used in investing activities	**(3.4)**	(445.5)	(238.6)
Cash flows from financing activities			
Payment of capital element of finance lease rentals	**(2.4)**	(2.6)	(5.6)
Repayment of unsecured bank loans	**(21.5)**	(52.2)	(413.3)
Repayment of loan notes	**(1.3)**	(114.5)	(12.5)
Proceeds from issue of unsecured loans	**-**	470.0	502.8
Dividends paid to shareholders	**(12.7)**	(8.2)	(17.4)
Net cash (used in) / from financing activities	**(37.9)**	292.5	54.0
Effects of exchange rate changes on cash held	**(0.3)**	(0.6)	(1.1)
Net increase / (decrease) in cash and cash equivalents	**56.3**	(41.2)	(57.7)
Opening cash and cash equivalents	**19.7**	77.4	77.4
Closing cash and cash equivalents (note 12)	**76.0**	36.2	19.7

All amounts are unaudited

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	6 Months to 30.06.07 £m	6 Months to 30.06.06 £m	12 Months to 31.12.06 £m
Foreign currency translation differences for foreign operations	**-**	(0.1)	(0.2)
Defined benefit plan actuarial gains and losses	**22.7**	9.0	18.1
Income tax on income and expense recognised directly in equity	**(6.8)**	(2.7)	(5.4)
Income and expense recognised directly in equity	**15.9**	6.2	12.5
Profit for the period	**27.8**	35.1	67.5
Total recognised income and expense for the period attributable to equity holders of the company	**43.7**	41.3	80.0

NOTES

1. This interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2006.

2. The comparative figures for the financial year ended 31 December 2006 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

3. The interim report was approved by the board of directors on 7 August 2007 and is unaudited.

4. Exceptional items

Exceptional items of £6.8 million were incurred during the first half of 2007 in respect of impairment of goodwill on businesses scheduled for closure.

Exceptional items incurred during the first half of 2006 totalled £3.4 million. £2.5 million is in respect of integration costs arising on the acquisition of Reg Vardy Plc and £0.9 million is in respect of the abortive acquisition costs incurred in the unsuccessful bid for Lookers PLC.

5. Segmental Analysis

	6 Months to 30.06.07 £m	6 Months to 30.06.06 £m	12 Months to 31.12.06 £m
Revenue			
Stratstone	**1,098.3**	1,097.9	2,143.8
Evans Halshaw	**1,450.3**	1,366.9	2,623.6
Chatfields	**99.4**	107.4	200.4
Support	**54.4**	52.9	90.7
Revenue from external customers	**2,702.4**	2,625.1	5,058.5
Result			
Stratstone	**22.1**	31.5	56.1
Evans Halshaw	**17.8**	28.6	52.7
Chatfields	**2.5**	3.3	6.1
Support	**12.1**	10.1	19.9
Central	**7.6**	8.5	29.2
Result by segment	**62.1**	82.0	164.0
Finance costs	**(28.8)**	(30.8)	(66.7)
Share of profit of joint venture	**0.2**	0.3	0.4
Income tax expense	**(4.2)**	(15.7)	(28.9)
Profit for period	**29.3**	35.8	68.8

6. 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.

Results of discontinued operation	**6 Months to 30.06.07 £m**	6 Months to 30.06.06 £m	12 Months to 31.12.06 £m
Revenue	**20.3**	20.4	42.5
Expenses	**(21.5)**	(21.1)	(43.8)
Results from operating activities	**(1.2)**	(0.7)	(1.3)
Income tax expense	**-**	-	-
Results from operating activites net of income tax	**(1.2)**	(0.7)	(1.3)
Loss on sale of discontinued operation	**(0.3)**	-	-
Loss for the period	**(1.5)**	(0.7)	(1.3)

7. Finance costs	**6 Months to 30.06.07 £m**	6 Months to 30.06.06 £m	12 Months to 31.12.06 £m
Interest payable on bank borrowings	**10.0**	14.1	29.3
Interest payable on loan notes	**4.5**	3.8	9.5
Vehicle stocking plan interest	**15.8**	11.4	25.3
Interest payable on finance leases	**-**	0.1	0.4
Fair value loss - interest rate swaps	**-**	1.0	1.0
Unwinding of discounts in contract hire residual values	**1.0**	1.2	2.7
Interest on pension scheme obligations	**9.0**	7.2	16.5
	40.3	38.8	84.7
Less interest capitalised	**-**	-	(0.3)
Total finance costs	**40.3**	38.8	84.4

8. Finance income	**6 Months to 30.06.07 £m**	6 Months to 30.06.06 £m	12 Months to 31.12.06 £m
Interest received on bank deposits	**0.5**	0.4	0.8
Interest on pension scheme assets	**11.0**	7.4	16.9
Other interest receivable	**-**	0.2	-
Total finance income	**11.5**	8.0	17.7

9. Based upon the anticipated profit on ordinary activities before taxation for the full year, the effective tax rate for 2007 is estimated at 30.5% (2006 : 30.9%), excluding the impact of the Finance Act 2007. The impact of the Finance Act 2007 on the deferred tax liability are a one-off reduction in 2007 due to the removal of balancing adjustments on the disposal of industrial buildings and a reduction in the tax rate from April 2008 onwards from 30% to 28%. The amount of this reduction is £5.9m and due to its one-off nature is deemed exceptional.

10. A dividend of 2.00p (2006 : 1.45p) net per ordinary share will be paid on 3 October 2007 to shareholders appearing on the register at the close of business on 7 September 2007. Comparative numbers have been restated following the subdivision of the ordinary shares of 25p each into 5 new ordinary shares of 5p each.

11. Earnings per share	**6 Months 30.06.07 pence**	6 Months 30.06.06 pence	12 Months 31.12.06 pence
Basic earnings per share - continuing operations	**4.6**	5.7	10.9
Basic earnings per share - discontinued operation	**(0.2)**	(0.1)	(0.2)
Basic earnings per share	**4.4**	5.6	10.7
Effect of non trading items	**(0.9)**	(0.9)	(3.2)
Adjusted earnings per share	**3.5**	4.7	7.5
Diluted earnings per ordinary share - continuing operations	**4.5**	5.6	10.8
Diluted earnings per ordinary share - total	**4.3**	5.5	10.6

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

Number of shares (millions)	**30.06.07 number**	30.06.06 number	31.12.06 number
Weighted average number of shares used in basic and adjusted earnings per share calculation	**634.9**	624.0	629.0
Weighted average number of dilutive shares under option	**9.8**	16.5	10.7
Diluted weighted average number of shares used in diluted earnings per share calculation	**644.7**	640.5	639.7

Earnings	**6 Months 30.06.07 £m**	6 Months 30.06.06 £m	12 Months 31.12.06 £m
Continuing operations	**29.3**	35.8	68.8
Discontinued operation	**(1.5)**	(0.7)	(1.3)
Earnings for basic and diluted earnings per share calculation	**27.8**	35.1	67.5
Adjusting items:			
Profit on business and property disposals	**(7.3)**	(11.9)	(24.3)
Goodwill impairment	**6.8**	-	0.9
Abortive acquisition costs	**-**	0.9	1.0
Gain on curtailment of defined benefit pension scheme	**-**	-	(9.9)
Operating exceptional costs	**-**	2.5	4.0
Exceptional deferred tax credit (see note 9)	**(5.9)**	-	-
Tax effect of adjusting items	**0.6**	2.8	8.1
Earnings for adjusted earnings per share calculation	**22.0**	29.4	47.3

The directors consider that the adjusted earnings per share figures provide a better measure of comparative performance. Comparative numbers have been restated following the subdivision of the ordinary shares of 25p each into 5 new ordinary shares of 5p each.

12. Cash and cash equivalents	**30.06.07 £m**	30.06.06 £m	31.12.06 £m
Bank balances and cash equivalents	**76.0**	36.2	19.7

13. Net borrowings	**30.06.07 £m**	30.06.06 £m	31.12.06 £m
Cash and cash equivalents (see note 12)	**76.0**	36.2	19.7
Current interest bearing loans and borrowings	**(8.4)**	(210.0)	(10.4)
Non-current interest bearing loans and borrowings	**(345.9)**	(403.1)	(371.0)
Derivative financial instruments	**(11.3)**	(4.8)	(8.0)
	(289.6)	(581.7)	(369.7)

14. Reserves	Share capital £m	Share premium £m	Other reserves £m	Translation differences £m	Accumulated profit £m	**Total £m**
Balance at 1 January 2006	32.8	56.8	15.1	(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 trusts	-	-	-	-	1.7	1.7
Balance at 31 December 2006	32.8	56.8	15.1	(0.3)	201.6	306.0
Balance at 1 January 2007	32.8	56.8	15.1	(0.3)	201.6	306.0
Total recognised income and expense for 6 months to 30 June 2007	-	-	-	-	43.7	43.7
Dividends	-	-	-	-	(12.7)	(12.7)
Share based payments	-	-	-	-	0.7	0.7
Increase of own shares in share trusts	-	-	-	-	(0.4)	(0.4)
Balance at 30 June 2007	32.8	56.8	15.1	(0.3)	232.9	337.3

15. Pension Scheme Obligations

The net liability for defined benefit obligations has decreased from £65.2 million at 31 December 2006 to £31.2 million at 30 June 2007. The decrease of £34.0 million comprises contributions of £9.3 million, a credit to the income statement of £2.0 million and a net actuarial gain of £22.7 million. The net actuarial gain has arisen in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities over those used at 31 December 2006. The assumptions subject to change are the discount rate 5.7% (2006: 5.2%), Inflation rate 3.1% (2006: 2.9%), and rate of increase in pensions in payment 3.0 – 3.1% (2006: 2.9%).

INDEPENDENT REVIEW REPORT TO PENDRAGON PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2007 which comprises the income statement, the balance sheet, the cash flow, the statement of recognised income and expense and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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

Directors' responsibilities

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

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

KPMG Audit Plc
Chartered Accountants
Birmingham
7 August 2007

Financial calendar

Ex-dividend date for 2007 proposed interim dividend	5 September 2007
Record date for 2007 proposed interim dividend	7 September 2007
Payment date for 2007 proposed interim dividend	3 October 2007
Final results for 2007 announced	February 2008
Annual general meeting	April 2008
Final dividend for 2007 payable	May 2008

Headquarters and registered office

Loxley House
2 Oakwood Court
Little Oak Drive
Annesley
Nottinghamshire, NG15 0DR
Telephone 01623 725200
Fax 01623 725010
Web www.pendragonplc.com

Registrars
Capita IRG PLC
The Registry
Beckenham Road
Beckenham
Kent, BR3 4TU

Address
Pendragon PLC
Loxley House
2 Oakwood Court
Little Oak Drive
Annesley
Nottingham
NG15 0DR

Telephone
01623 725200

Fax
01623 725010

Web
www.pendragonplc.com

Design
Stratstone Marketing
Neway House
Little Oak Drive
Annesley
Nottingham
NG15 0PR