PENDRAGON
PLC

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PRELIMINARY RESULTS TO 31 DECEMBER 2007

Pendragon PLC, the UK's leading car retailer group, today reports preliminary results for the twelve months to 31 December 2007.

Highlights:

- Revenue £5.1 billion (2006 £5.1 billion)
- Profit before tax and exceptionals £34.8 million (2006 £69.4 million)
- Profit before tax £46.5 million (2006 £97.7 million)
- Basic earnings per share 6.5p (2006 10.7p)
- Total dividend 4.0p (2006 3.45p)
- Cash generated from operations £160.0 million (2006 £219.4 million)

Trevor Finn, Chief Executive, commented:

"As interest rates rose last year the car market became progressively more competitive putting pressure on used car margins. We acted early, closing poorly performing sites and, as a result, are better placed to face the challenges in what remains an uncertain market in 2008."

Enquiries:

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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 after sales 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

£m	**2007**	**2006**
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 businesses	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	6.5p	10.7p
Earnings per share – adjusted	4.1p	7.50p
Dividend per share	4.0p	3.45p

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.

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 after sales has grown in line with the car parc in the UK and tends to be less affected by economic cycles as motor cars require regular maintenance and repair for both safety and performance reasons. 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:

£m	2007		2006	
	Revenue	Operating profit	Revenue	Operating profit
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
USA	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, Mercedes Benz, MINI, Saab 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 after sales 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		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
New	47%	36%	9.7%	47%	36%	10.1%
Used	37%	18%	6.2%	36%	20%	7.2%
After sales	10%	48%	61.8%	10%	45%	61.2%
Trade/wholesale	6%	(2%)	(3.6%)	7%	(1%)	(1.2)%
Total	**100%**	**100%**	**12.7%**	**100%**	**100%**	**13.3%**

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.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %	Total units sold '000	Gross profit per unit £
Existing	1,874.4	239.3	12.8%	33.4	1.8%	69.6	
Disposed	24.3	2.6	10.6%	(3.1)	(12.7%)	0.6	
Total 2007	**1,898.7**	**241.9**	**12.7%**	**30.3**	**1.6%**	**70.2**	**1,801**
Total 2006	1,927.5	255.6	13.3%	49.5	2.6%	72.3	1,944

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.

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.

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.

	2007			2006		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
New	58%	26%	5.5%	55%	25%	6.0%
Used	27%	34%	15.5%	27%	34%	16.0%
After sales	9%	41%	55.6%	11%	41%	54.0%
Trade/wholesale	6%	(1%)	(2.0%)	7%	-	(0.6%)
Total	**100%**	**100%**	**12.4%**	**100%**	**100%**	**13.2%**

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.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %	Total units sold '000	Gross profit per unit £
Existing	2,573.5	319.4	12.4%	37.8	1.5%	244.5	
Acquired	52.6	8.7	16.6%	(1.3)	(2.4%)	5.9	
Disposed	64.5	5.9	9.1%	(5.9)	(9.2%)	6.2	
Total 2007	**2,690.6**	**334.0**	**12.4%**	**30.6**	**1.1%**	**256.6**	**764**
Total 2006	2,624.5	346.0	13.2%	53.6	2.0%	246.0	824

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.

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.

	2007			2006		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
New	67%	25%	5.0%	67%	27%	5.6%
Used	5%	4%	9.6%	5%	4%	13.3%
After sales	25%	70%	38.0%	25%	68%	37.6%
Trade vehicles	3%	1%	6.8%	3%	1%	3.1%
Total	**100%**	**100%**	**13.5%**	**100%**	**100%**	**13.9%**

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.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %	Total units sold '000	Gross profit per unit £
Existing	194.2	26.1	13.4%	5.0	2.6%	5.1	
Disposed	3.7	0.7	19.6%	(0.2)	(5.2%)	0.1	
Total 2007	**197.9**	**26.8**	**13.5%**	**4.8**	**2.4%**	**5.2**	**1,533**
Total 2006	200.4	27.8	13.9%	6.1	3.1%	5.5	1,620

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.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying 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

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.

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.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying 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%

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.

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

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %
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.

	2007			2006		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
New	66%	46%	11.0%	66%	46%	10.8%
Used	14%	7%	7.5%	15%	7%	7.5%
After sales	15%	47%	51.1%	14%	47%	51.5%
Trade	5%	-	(1.4%)	5%	-	0.4%
Total	**100%**	**100%**	**16.0%**	**100%**	**100%**	**15.7%**

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.

£m	Revenue	Gross profit	Gross margin %	Underlying operating profit	Underlying operating margin %	Total units sold '000	Gross profit per unit £
Total 2007	180.3	28.8	16.0%	4.6	2.6%	6.0	2,497
Total 2006	214.8	33.6	15.7%	6.5	3.0%	6.6	2,728

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

Consolidated Income Statement

Year ended 31 December 2007

	2007 **£m**	restated 2006 £m
Revenue	**5,060.2**	5058.5
Cost of sales	**(4,387.5)**	(4,357.2)
Gross profit	**672.7**	701.3
Operating expenses	**(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	**(6.8)**	(0.9)
Closure and integration costs	**-**	(4.0)
Abortive acquisition costs	**-**	(1.0)
Gain on curtailment of defined benefit pension schemes	**-**	9.9
Operating profit before other income	**87.3**	139.7
Other income – gains on the sale of businesses and property	**18.5**	24.3
Operating profit	**105.8**	164.0
Finance expense (note 4)	**(83.5)**	(84.4)
Finance income (note 5)	**23.4**	17.7
Net finance costs	**(60.1)**	(66.7)
Share of profit before tax from joint venture	**1.2**	0.5
Share of income tax expense from joint venture	**(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 (note 9)	**(3.3)**	(28.9)
Profit from continuing operations	**43.2**	68.8
Discontinued operation (note 1)		
Loss from discontinued operation (net of income tax)	**(2.1)**	(1.3)
Profit for the year attributable to equity shareholders of the company	**41.1**	67.5
Earnings per Share (note 3)		
Basic	**6.5p**	10.7p
Diluted	**6.4p**	10.6p
Earnings per share continuing operations (note 3)		
Basic	**6.8p**	10.9p
Diluted	**6.7p**	10.8p

Consolidated Balance Sheet

At 31 December 2007

	2007 **£m**	2006 £m
Non-current assets		
Property, plant and equipment	**385.1**	420.4
Goodwill	**427.2**	433.8
Other intangible assets	**2.1**	1.4
Investment in joint venture	**4.0**	3.0
Total non-current assets	**818.4**	858.6
Current assets		
Inventories	**786.5**	850.2
Trade and other receivables	**205.9**	260.9
Cash and cash equivalents	**52.6**	19.7
Non-current assets classified as held for sale	**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	**(81.8)**	(10.4)
Trade and other payables	**(1,081.2)**	(1,171.8)
Deferred income	**(0.9)**	(0.9)
Current tax payable	**(13.5)**	(19.5)
Provisions	**(3.5)**	(4.3)
Total current liabilities	**(1,180.9)**	(1,206.9)
Non-current liabilities		
Interest bearing loans and borrowings	**(297.2)**	(371.0)
Derivative financial instruments	**(5.6)**	(8.0)
Deferred income	**(20.2)**	(21.1)
Deferred tax liabilities	**(56.6)**	(42.0)
Retirement benefit obligations	**(13.8)**	(65.2)
Provisions	**(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	**32.8**	32.8
Share premium account	**56.8**	56.8
Capital redemption reserve	**2.5**	2.5
Other reserves	**12.6**	12.6
Translation reserve	**(0.4)**	(0.3)
Retained earnings	**235.3**	201.6
Total equity attributable to equity shareholders of the company.	**339.6**	306.0

Consolidated Cash Flow Statement

Year ended 31 December 2007

	2007	2006
	£m	£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	**(16.3)**	(466.0)
Proceeds from sale of businesses, net of cash disposed	**20.6**	23.1
Purchase of investment in joint venture	**(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 / receipts from sales of investments	**(0.2)**	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	**(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	**52.6**	19.7

Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2007

	2007	2006
	£m	£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

Notes to the Financial Statements

1. **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.

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 groups 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.

2. **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.

3. **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 (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.

4. **Finance expense**

Recognised in profit and loss	**2007 £m**	2006 £m
Interest payable on bank borrowings	**20.2**	29.3
Interest payable on loan notes	**9.4**	9.5
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

5. **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

6. **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

7. **Analysis of net debt**

	2007 £m	2006 £m
Cash and cash equivalents (note 6)	**52.6**	19.7
Short-term borrowings	**(79.1)**	(5.3)
Long-term borrowings	**(290.2)**	(364.5)
Derivative financial instruments	**(5.6)**	(8.0)
Obligations under finance leases	**(9.7)**	(11.6)
	(332.0)	(369.7)

8. **Annual Report**

The above financial information does not represent the full financial statements of the company. Full financial statements for the year ended 31 December 2006, containing an unqualified audit report have been delivered to the registrar of companies. Full financial statements for the year ended 31 December 2007, which have been reported on without qualification by the group's auditors, will shortly be posted to shareholders, and after adoption at the Annual General Meeting on 25 April 2008 will be delivered to the registrar.

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

9. **Tax**

The overall effective tax rate for the year was 7.4% (2006: 30.0%). The reduction in tax rate in 2007 was due to certain one off tax credits and the changes that arise with the Finance Act 2007. As explained in our interim statement, the impact of the Finance Act gave a one off reduction in 2007 to our deferred tax liability due to the removal of balancing adjustments on the disposal of industrial buildings and the reduction in the tax rate from April 2008 onwards from 30% to 28%. The amount of this reduction is £7.7 million and due to its one off nature is deemed exceptional and is excluded from our adjusted earnings per share calculations.

10. **Pension Funds**

The net liability for defined benefit obligations has decreased from £65.2 million at 31 December 2006 to £13.8 million at 31 December 2007. The decrease of £51.4 million comprises of contributions of £18.9 million, a credit to the income statement of £4.2 million and a net actuarial gain of £28.3 million. The net actuarial gain has arisen due in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities and also the change in value of the assets held over the year. The main assumptions subject to change are the discount rate 6.0% (2006: 5.2%) and inflation rate 3.2% (2006: 2.9%).