



Pendragon | PLC

ANNUAL REPORT 2009

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GROUP REVIEW

	2009 £m	Restated* 2008 £m	2007 £m	2006 £m	2005 £m
Revenue (note 6)	3,191.7	4,162.4	5,060.2	5,058.5	3,247.4
Gross profit (note 6)	492.1	543.2	672.7	701.3	462.5
Operating profit / (loss) before other income (note 6)	55.6	(130.9)	87.3	139.7	97.5
Profit / (loss) before taxation (note 6)	1.3	(194.0)	46.5	97.7	66.4
Net assets (note 9)	105.9	113.7	307.2	306.0	239.3
Net borrowings (note 7)	315.4	357.3	332.0	369.7	177.0

Other financial information

Gross margin (note 6)	15.4%	13.1%	13.3%	13.7%	14.1%
Total operating margin (note 1 and 6)	1.7%	0.6%	2.0%	2.8%	3.0%
After tax return on equity (note 2)	0.7%	(73.8)%	12.7%	24.8%	15.8%
Basic earnings per share (note 3)	0.1p	(25.2)p	6.5p	10.7p	7.0p
Adjusted earnings per share (note 4)	1.1p	(3.5)p	5.0p	7.5p	6.7p
Dividends per share (note 5)	-	0.50p	4.00p	3.45p	2.64p
Dividend cover (times)	-	(9.8)	1.6	3.1	2.6
Interest cover (times) (note 6)	1.0	(2.6)	1.8	2.4	2.6
Gearing (note 8 and 9)	297.8%	314.2%	108.1%	120.8%	74.0%

Business development summary

Number of franchises	276	301	354	390	289
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*See note 1(c) of the financial statements

note 1 Total operating margin is calculated after adding back goodwill impairment and other non-underlying items, and excluding other income.

note 2 Return on equity is profit for the year as a percentage of average shareholders' funds.

note 3 Basic earnings per share has been restated for the impact of the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 4 Basic earnings per share adjusted to eliminate the effects of non-underlying operating and tax items, see note 9 of the financial statements.

It has been restated for the impact of the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 5 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 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 6 All comparative amounts have been adjusted to eliminate the results of the discontinued operation (2007 and prior).

note 7 Net borrowings comprise interest bearing loans and borrowings, cash and cash equivalents and derivative financial instruments.

note 8 Gearing is calculated as net borrowings as a percentage of net assets.

note 9 Net assets have been adjusted for the impact of the adoption of IFRIC 14 during 2008.

OPERATIONAL & BUSINESS REVIEW

INTRODUCTION

With market conditions more stable and the full year benefit of cost saving measures being experienced, the Group is emerging from the most challenging market conditions since the early nineties. The Group made an underlying profit before tax of £10.1 million, a recovery of £43.7 million over the 2008 underlying loss of £33.6 million. The profit before tax was £1.3 million for the year (2008: loss £194.0 million). Cash generated from operations was £93.3 million (2008: £53.6 million). Net debt was £315.4 million (2008: £357.3 million).

On 30 April 2009, the Group negotiated a new three year secured financing package with its lenders. As a result of the improvement in profitability, and

debt reduction during the year, covenant measures have been comfortably achieved since the refinancing and there continues to be significant headroom on the overall facility.

Cost reduction measures remained an important area of focus for the Group with the result that a further 26 franchise points closed during the year and further headcount reductions were implemented leaving the Group in a more robust shape for future trading.

FINANCIAL PERFORMANCE SUMMARY

£m

	2009 Underlying	2009 Total	2008 Underlying	Restated* 2008 Total
Revenue	3172.7	3,191.7	4,025.5	4,162.4
Underlying operating profit	53.4	53.4	25.8	25.8
Non-underlying operating items	-	(2.2)	-	(156.7)
Operating profit / (loss) before other income	53.4	55.6	25.8	(130.9)
Other income – gain / (loss) on sale of property and businesses	-	1.1	-	(5.2)
Operating profit / (loss)	53.4	56.7	25.8	(136.1)
Net finance costs	(43.3)	(43.3)	(61.6)	(61.6)
Non-underlying finance costs	-	(12.1)	-	7.7
Share of joint venture profit / (loss)	-	-	2.2	(4.0)
Profit / (loss) before tax	10.1	1.3	(33.6)	(194.0)
Tax	(2.9)	(0.5)	11.5	38.7
Profit / (loss) after tax	7.2	0.8	(22.1)	(155.3)
Earnings per share – basic	-	0.1p	-	(24.4)p
Earnings per share – underlying	1.1p	1.1p	(3.5)p	(3.5)p
Dividend per share	-	-	0.5p	0.5p

* see note 1

As a consequence of our decision to reduce low margin fleet activity, together with the impact of the reduction of the new vehicle market in 2009, revenues fell to £3.2 billion in 2009 from £4.2 billion in 2008. The reduction includes approximately £476 million related to reduced levels of low margin fleet business and £222 million from the reduction in used volume, which was driven by constrained supply during the refinancing process. Underlying operating profits were £53.4 million compared to £25.8 million in 2008 and each of our operating divisions was profitable

at this level. The improvement in these trading profits is primarily driven by margins in used car sales, which recovered strongly during the year, and the benefit of the cost saving actions initiated in the prior year. Underlying finance costs have reduced by £18.3 million on 2008 including £17.6 million stocking interest saving driven mainly by a £21.1 million year on year reduction in stock levels. After financing costs we made a profit before tax and non-underlying items of £10.1 million compared to a loss of £33.6 million before tax and non-underlying items in 2008.

OPERATIONAL & BUSINESS REVIEW CONTINUED

NON-UNDERLYING ITEMS

We have recognised a number of non-underlying costs in 2009. These primarily arose due to further redundancies and dealership closures together

with an update to our VAT provision and items relating to accounting for the refinancing.

	2009 £m	Restated 2008 £m
Closed businesses and redundancy costs	(10.7)	(25.1)
Goodwill impairment	(0.8)	(58.1)
Fixed asset impairment and net disposal profit / (loss)	(0.1)	(38.7)
Release of accruals no longer required	-	6.4
Net loss on refinancing	(9.6)	(6.1)
Pension net finance (charge) / income	(3.8)	4.0
VAT refund	-	15.1
VAT provision movement	16.2	(26.8)
Inventory write down	-	(24.9)
Impairment of Joint Venture	-	(6.2)
Total	(8.8)	(160.4)

We are reporting net non-underlying costs before tax of £8.8 million for 2009 (2008: £160.4 million). These include £8.6 million of losses on closed businesses arising from the date of announcement to close and £2.1 million of redundancy costs. We have impaired goodwill by £0.8 million in respect of franchises we have decided to exit. We have a net impairment in respect of property of £1.2 million and generated profits on disposal of fixed assets of £1.1 million. In addition, we have incurred a net loss relating to the refinancing of our borrowings and expensing of fees related to reviewing other financing options. The net impact is a non-underlying loss of £9.6 million. We continue to take a cautious view relating to open VAT issues

and continue to hold a provision in respect of sales of vehicles to certain disabled customers at the same level as 2008. There has been a release of a £16.2 million provision in respect of the VAT treatment of partial exemption within our finance and insurance operations which was resolved during the year with HMRC conceding the case. In 2008 the net pension finance income was not treated as a non-underlying item. However, given the volatility of this amount, this has now been treated as a non-underlying item. The 2008 comparative has been disclosed as a non-underlying item this year to ensure consistent presentation.

DIVIDEND

No interim dividend was paid during the year and no final dividend is proposed. An interim dividend of 0.5 pence was paid in October 2008 and no final dividend was paid in respect of 2008. In the near term, the

Company will be focussed on conservation of cash and reduction of borrowings.

OPERATIONAL & BUSINESS REVIEW CONTINUED

STRATEGY

Pendragon has over time become the largest independent operator of franchised motor car dealerships in the UK, mainly as a result of acquisitions, although there has also been substantial investment in greenfield sites. The group now operates 276 franchises points (2008: 301). As a result of expansion, Pendragon sells a broad range of new and used motor cars and commercial vehicles and has a substantial presence in the UK vehicle leasing, wholesale parts and dealership management software markets. Pendragon operates nine franchise points in California.

Our strategy was to grow the number of franchises we operate and have scale with selected manufacturer brands. This enabled us to reduce fixed overheads related to operating car franchises and realise benefits of economies of scale. The scale of our business has also enabled us to maintain a diversified portfolio of franchises representing both volume and luxury brands. These are sold through the Evans Halshaw and Stratstone brands respectively.

The franchise portfolio is constantly reviewed and dealerships that are determined to be uneconomical are closed or sold, or the location

refranchised. This strategy has led to a number of closures during the last two years. It remains our intention to represent a broad range of vehicle manufacturers and have meaningful scale with them. Where we believe the long term prospects for a particular franchise are poor we will exit that franchise as soon as is practicable.

Our strategy to grow the business has led to competitive advantage over smaller rivals in a number of areas, for example, through the Group's shared services centre, central marketing, IT capability and through its buying power. The critical mass of the Group also drives profitable functional integration in contract hire, wholesale parts distribution and dealership management systems.

During 2008 and 2009 the Group undertook significant cost saving and debt reduction actions and concluded a successful refinancing to secure the long term future of the Group. Having undertaken those actions management has returned attention to the areas of the business where the greatest profit growth opportunities lie. We see those opportunities existing primarily in our servicing and used car operations.

OPERATIONAL & BUSINESS REVIEW^{CONTINUED}

OUR MARKETS

Our principal market is in the UK and splits into four main areas: new vehicle sales, used vehicle sales, aftersales service and leasing and support. The UK new car market is split between retail and fleet. Fleet business tends to be high volume and low margin. Whilst the Group conducts some fleet business we are highly selective as to which business we transact. In addition to being low margin, fleet business is higher risk than retail and consumes a disproportionate amount of working capital compared to the profits it generates. In 2009 the Group continued to reduce activity in this area for those reasons with a reduction in fleet volume from 61,600 units in 2008 to 24,600 units in 2009. The primary focus of the Group in the new car market is on retail sales.

Prior to the economic downturn, on average over the last five years, the market for new cars in the UK has been 2.4 million. In 2009 the total number of new car registrations in the UK was 1,995,000, of which 285,000 had been generated by the scrappage scheme. The overall reduction was 6.4% compared to 2008 whereas in the brands that we represent the UK registrations were down 5.8% year on year. Pendragon outperformed the market for new retail car sales. Like for like our UK retail car new unit sales were down 0.3% year on year. Excluding the impact of the scrappage scheme, total UK registrations were down 19.8% on 2008. Excluding scrappage, our UK retail new unit sales were down 12.1% compared to the market reduction in retail new unit registrations of 18.2%. The reduction in new car sales volume is expected to continue in 2010 with industry estimates of around 1.8 million new vehicle registrations. Excluding the remaining scrappage volume of 115,000 through to the closure of the scheme in 2010, industry expectations are that new volume will fall by approximately 0.5% year on year. Industry expectations are then for the underlying new car market to grow by approximately 9% in 2011. Pendragon sold 106,000 new vehicles in the UK in 2009, which equates to 5.3% of the total market. This proportion is down on 2008 where Pendragon sales were 6.4% of the market. Excluding the reduction in fleet and scrappage sales our proportion of the retail market in 2009 was 8.5% compared to 7.9% in 2008.

The volumes of used car sales sold has proved to be resilient during the downturn. Volumes of used cars sold in the UK have historically been around 7.5 million per annum. Latest available data shows that the annual sales to the end of September 2009 were 6.9 million. In 2009 the Group sold 107,000 used cars in the UK, which was approximately 1.5% of the market. During the early part of 2009 our used car stock levels were constrained during the refinancing process but have now returned to levels appropriate for our sales targets. During the first half of 2009 our used car sales were 21.6% down on the prior period whereas in the second half our used car sales were 7% up on the equivalent period in the prior year. The Group has traditionally operated in only part of the market and retailed used cars up to three or four years old. However we have moved into the older used car market and see this as strengthening the used car sales part of our business. Whilst volumes fell during the year, there was a significant

recovery in wholesale used car prices and as a result the gross margin. The combined effect was that we achieved a higher level of used car gross profit than last year.

The total number of cars on the road in the UK was growing up until 2008. The reduction in the new car market and the scrappage scheme in 2009 has resulted in a small fall in the car parc. However, it is still estimated to be in excess of 31 million. 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. Aftersales growth has been held back by the reduction in car sales which reduces the volume of internal preparation work and subsequent servicing. Overall aftersales turnover is down 12.7% whereas retail aftersales turnover, which excludes warranty and internal work, is down 3.5%. Again, conditions improved in the second half with retail service back only 2.2% compared to a decline of 4.7% in the first half.

The commercial vehicle van and truck market in the UK has a market size of 221,000 new units in 2009, down 36.2% compared to 2008 of which commercial van registrations were down 35.6%. Our commercial van volume fell 49.6% reflecting our decision not to participate in lower margin, higher risk fleet van business. The key area in this market is aftersales service which remained strong in 2009.

The Group also operates in certain ancillary markets. We operate a vehicle leasing and contract hire business in the UK. Profits are generated when we sell the used car after it is returned to us at the end of the lease period. Profitability of our leasing business has returned to more normal levels as the used car market stabilised during the year.

In the UK we have continued to build a presence in the market for dealer management software 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 and we see this as a good growth area for our business. We have also achieved some sales in South Africa which has the opportunity for further growth.

We operate a small division in California with Land Rover, Jaguar and Aston Martin franchises. The USA total car market was 10.4 million units in 2009, down by 21% on 2008. Land Rover volumes decreased by 20% in line with the decline in the USA market. Volumes in the Jaguar brand were supported by a daily car hire fleet deal completed in December 2009 and as a consequence the decrease in Jaguar volumes of 9% was well ahead of the overall market. Although a low volume brand, Aston Martin unit sales decreased by 33% in the year which was in line with the national USA performance for this brand.

OPERATIONAL & BUSINESS REVIEW^{CONTINUED}

OPERATIONAL REVIEW

Our Group is structured operationally to reflect the range of business activities we undertake and we have seven distinct trading divisions. The core vehicle retail business consists of two divisions, Stratstone and Evans Halshaw, together with our Chatfields truck business and California operations in the USA. Support businesses consist of leasing, parts wholesale and software.

During the year management continued to take action on the cost base of the business to maintain it in line with expected activity levels. This is a dynamic area of management which is supported by our technology platform and management information systems.

In terms of dealership closures we closed or sold 26 franchise points which had combined operating losses and closure costs of £8.6 million in 2009, and opened one dealership. We have also identified nine further closures in 2010. When deciding upon dealership closures management considers the strategic future of the franchise, the level of losses which will be eliminated, the amount of business which will migrate to adjacent Group owned dealerships and the costs of closure which will primarily be stock disposal, redundancy and property costs.

£m

	2009 Revenue	2009 Operating profit	2008 Revenue	2008 Operating (loss) / profit
Stratstone	1,149.1	18.6	1,357.7	(2.5)
Evans Halshaw	1,709.8	14.2	2,271.2	6.1
Chatfields	107.6	1.2	174.6	3.6
Support businesses	118.7	18.1	142.3	17.2
USA	139.7	1.3	148.9	1.4

We have reduced job roles by 367 on a like for like basis through ongoing redundancy exercises to maintain appropriate headcount levels and by 879 overall including job roles relating to closed businesses. The job losses have been spread across all areas of the business. Resource levels continue to be monitored to ensure that the correct level is in place for the existing and projected activity levels. The one-off redundancy cost was £2.1 million.

The Group has maintained a tight management of inventory. Total inventory levels have reduced by £211 million during 2009. Having successfully reduced stock in 2008, the focus in 2009 was to continue to reduce the level of new stock and to maintain the correct level of used stock relative to sales levels. In the early part of the year, during the refinancing process, our ability to hold used stock was constrained and consequently some used car sales opportunities were lost. We have continued to reduce new car stocks in order that we minimise the manufacturer stockholding interest charges and the risk of ageing vehicle stocks.

Revenues and operating profits by division are summarised below:

Gross margin trends are as follows:

£m

	Revenue	2009 Gross profit	Gross margin	Revenue	2008 Gross profit	Gross margin
New	1,558.2	118.6	7.6%	2,165.8	146.0	6.7%
Used	962.7	117.8	12.2%	1,139.3	113.0	9.9%
Aftersales	391.3	216.2	55.3%	448.3	241.7	53.9%
Trade/wholesale	194.0	(0.9)	(0.5)%	198.9	(10.8)	(5.4)%

OPERATIONAL & BUSINESS REVIEW CONTINUED

STRATSTONE

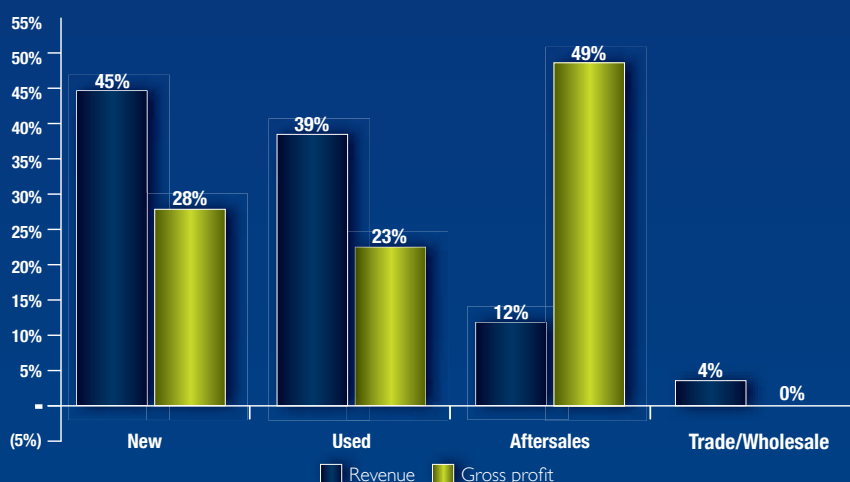
Our Stratstone brand is the UK's leading luxury motor car retailer with 118 franchise points. Each location sells new and used vehicles and undertakes aftersales service and parts sales. Stratstone holds franchises to sell and service Aston Martin, BMW, Cadillac, Corvette, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Porsche, Saab, Smart and Volvo. Stratstone also holds seven motorcycle franchises.

Nationally the luxury sector was the first to enter the recession with sales initially falling faster than the volume, van or commercial vehicle sector. We are now starting to see the recovery in this sector. The market for new vehicle registrations for brands we represent in this luxury sector fell by 7.9% in 2009. However, in the first half of 2009 sales fell 27.4%, whereas in the second half they rose by 20.3%. The registration changes in the brands where we have the greatest presence were a 10.3% reduction in Jaguar,

Land Rover registrations were down 10.4% whilst BMW and Mercedes-Benz were down 12.8% and 3.5% respectively. Excluding scrappage, first half of 2009 sales fell 29.4% whereas in the second half they rose by 7.7%. In total our new car volumes were 6.1% down on 2008 on a like for like basis and our gross margins were 0.9% down on 2008. Used car like for like volumes were down by 11.9% on 2008 whereas gross margins increased by 3.4% year on year as a result of the recovery in wholesale prices. Our aftersales activity reduced overall although retail aftersales were only marginally down by 1.8%. Gross margin remained marginally behind the prior year.

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

2009

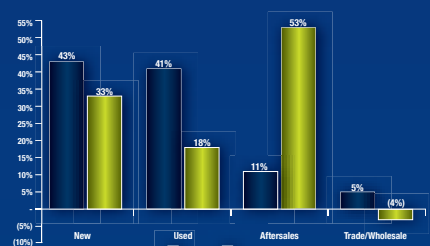


The relative proportion of gross profit generated by activity has changed in line with the market in 2009. "Trade" represents cars sent to auction which did not fit the Group's sales profile. Trade sales margins improved in line with the general market for used cars. We did not repeat the losses that were made in 2008 which arose as a consequence of the aggressive reduction of stock in the last quarter in 2008.

The following information relates to total units sold and gross profits per

	Revenue	Gross profit	Gross margin	Underlying operating profit/(loss)	Underlying operating margin	Total units sold '000	Gross profit per unit £
	£m	£m	%	£m	%		
Existing	1,136.1	169.2	14.9%	19.5	1.7%	45.1	
Disposed	13.0	1.7	12.8%	(0.9)	(6.8)%	0.9	
Total 2009	1,149.1	170.9	14.9%	18.6	1.6%	46.0	1,907
Total 2008	1,357.7	176.8	13.0%	(2.5)	(0.2)%	54.9	1,527

2008



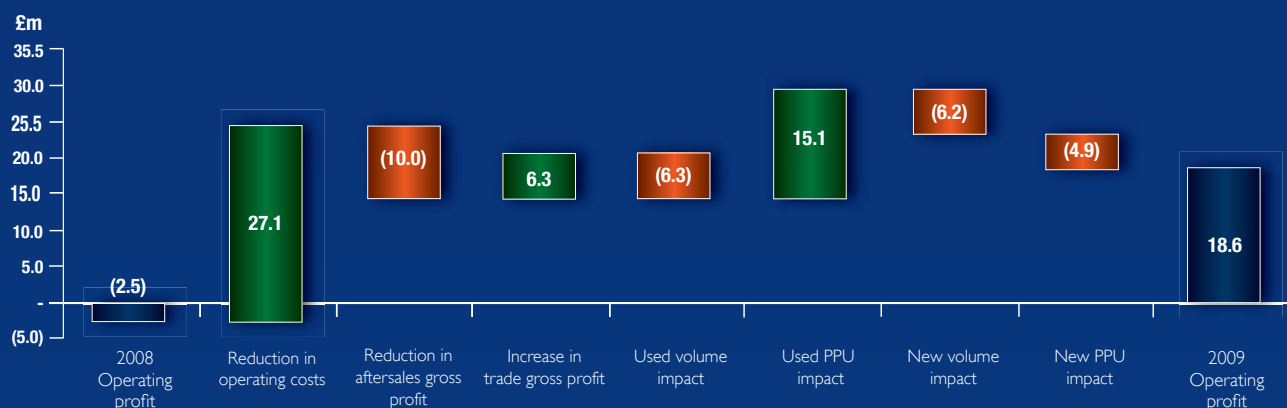
Gross margin %	2009	2008
New	9.1%	10.0%
Used	9.2%	5.8%
Aftersales	59.2%	59.9%
Trade/Wholesale	0.3%	(9.1)%
Gross margin (%)	14.9	13.0%
New & used units ('000)	46.1	54.9
PPU (£)	1,907	1,527

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.

Revenue at our existing dealerships was down year on year by £128 million, mainly due to a reduction in the volume of new cars sold. The total gross margin was up mainly due to improvements in used vehicle gross margin over 2008.

OPERATIONAL & BUSINESS REVIEW CONTINUED

Stratstone operating profit bridge



The impact on revenue of the reduction in volume of new cars sold was £65 million. Despite the difficult economic trading conditions, a number of our represented franchises improved their new unit retail performance over the prior year: Land Rover, Mercedes-Benz, Honda and Volvo improved their unit retail performance over 2008. Used car volumes were down, impacted by our constrained stock position in the first half of the year; but due to improvements in margin, used department profit improved by £8.8 million with profit per unit up significantly. Aftersales revenues fell by £15.3m. However, the second half profile for aftersales was much improved over the first half. Overall, retail service sales were marginally down, by 1.8%, which again demonstrates the resilience of our aftersales business in

periods of economic decline. Our like for like operating costs reduced by £14.7 million as compared to 2008 and, whilst we will seek to grow the business in line with the opportunities and the economic recovery, cost control remains a strong focus for the business.

Sixteen franchise points were closed or sold during the year and incurred operating losses of £0.9 million up to the announcement of closure. This included exiting the Chrysler Jeep franchise, reducing Saab dealerships from four to two and closing other individual loss-making dealerships. An Aston Martin dealership was opened, replacing a previous dealership in the West Midlands that had closed in 2008.

OPERATIONAL & BUSINESS REVIEW CONTINUED

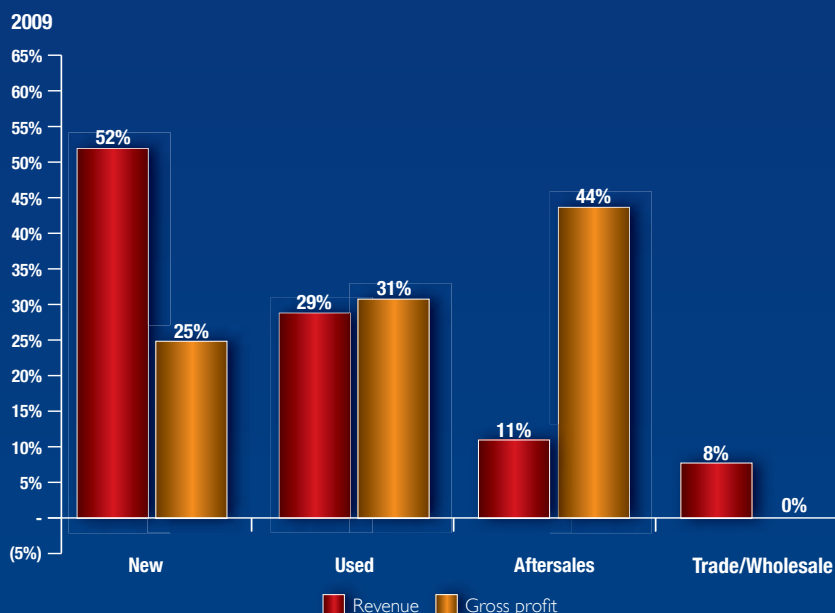
EVANS HALSHAW

Our Evans Halshaw brand is the UK's leading volume motor car retailer, with 128 franchise points. Evans Halshaw holds franchises to sell and service Chevrolet, Citroen, Fiat, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall.

Scrappage has been a major factor in the volume sector, particularly in the second half of the year. Nationally the market for new vehicle registrations for the brands we represent in this volume sector fell by 5.1%. Excluding scrappage the market for the brands we represent fell by 20.4% year on year. In the first half of 2009 sales fell 25.3% whereas in the second half they rose by 23.7% due to the scrappage volumes. Excluding scrappage, in the first half of 2009 sales fell 30.0% and in the second half they fell by 6.6%.

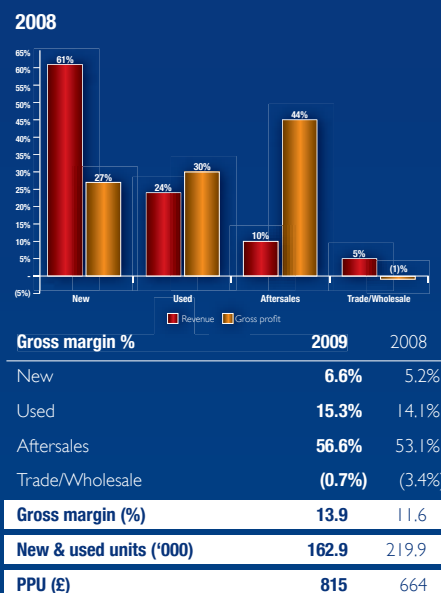
The overall reduction disguises some significant movements in individual

brands. For example, Ford registrations were down 1.9% whereas Vauxhall registrations were down 20.4% reflecting the fact that Ford had new models that were more suited to participation in the scrappage scheme. Whilst in total our new car volumes were 34.0% down on 2008 on a like for like basis, excluding fleet, our volumes were only 2.1% lower than 2008. Our new car gross margins were 1.4% up on 2008. Similarly to Stratstone, used volume was impacted by our constrained stock position in the first half of the year. Like for like volumes were down by 8.3% on 2008 with the first half 21.3% behind but the second half 8.1% ahead. However, used margin was strong with gross margins improving by 1.2% year on year, reflecting the significant improvement in used car prices in the first half of the year. Aftersales revenues fell overall for the year, but similar to Stratstone, we saw a pronounced impact in the first half with retail revenue back 7.0% but recovering in the second half to only 2.7% behind the prior year.



The recovery in used car prices caused used margins to improve and losses on trade cars to be significantly reduced.

Aftersales gross margin improved 3.5% year on year and overall aftersales maintained its proportion of the total gross profit and revenue. Motor vehicles are regularly serviced and repaired to ensure safety and performance standards are maintained and, importantly, to protect their resale value. Aftersales therefore plays an important role in mitigating the effect of the economic cycle.

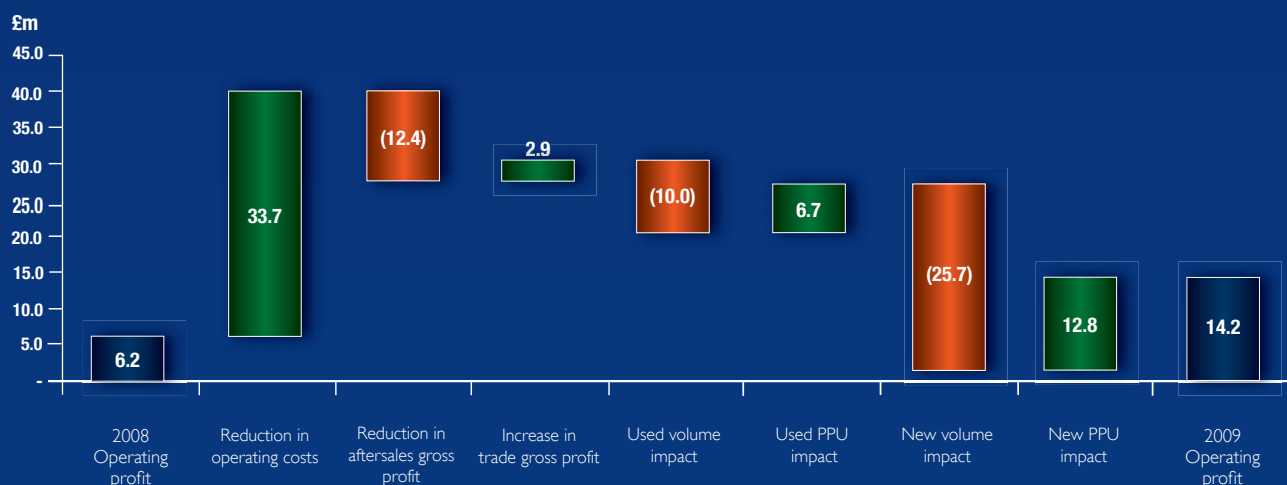


Revenue at our Evans Halshaw dealerships was down year on year by £561 million, mainly due to a reduction in the volume of new cars sold which was £484 million. This was largely due to our decision to reduce low margin fleet activity, offset by the benefit of the scrappage scheme. The gross margin increased by 2.3% which was mainly as a result of the improvement in used car margins. We also experienced an improvement in new car margins of 1.4% reflecting the assistance the manufacturers have provided in the difficult new car trading conditions.

	Revenue	Gross profit	Gross margin	Underlying operating profit/(loss)	Underlying operating margin	Total units sold '000	Gross profit per unit £
	£m	£m	%	£m	%		
Existing	1,701.7	236.3	13.9%	14.5	0.8%	162.0	
Disposed	8.1	1.2	14.8%	(0.3)	(3.3)%	0.9	
Total 2009	1,709.8	237.5	13.9%	14.2	0.8%	162.9	815
Total 2008	2,271.2	263.1	11.6%	6.1	0.3%	219.9	664

OPERATIONAL & BUSINESS REVIEW CONTINUED

Evans Halshaw operating profit bridge



New retail volume in a number of our franchises performed strongly despite the tough trading environment. Ford new retail unit volume was up 18.7% and Nissan was up 63.5% whereas Vauxhall was 25.5% down, Citroen down 11.7%, Peugeot down 6.5% and Renault down 9.2%. New car profit per unit was ahead of last year by 27.2% which counterbalanced the unit shortfall. Used car volumes were down on the prior year as a result of constrained supply but gross margin was up by 1.2%. Overall used profitability was marginally behind last year by £3.3 million but lack of used stock in the first half of the year had a larger impact in the Evans Halshaw business than in Stratstone. Used volume was 21.3% down in the first half but was 8.1% ahead in the second half.

Aftersales revenues and profits for retail customers were marginally behind

last year as consumers initially delayed the servicing of their vehicles at the height of the economic slowdown. In the first half our retail aftersales revenue was back by 7.0% but in the second half as the economic recovery began retail aftersales revenues were only back by 2.7%. Internal service sales were impacted by the volume reduction. Despite the reduction in aftersales turnover of £35.5 million, our strong cost management ensured that we improved margin in aftersales by 3.5%. Our like for like operating costs reduced by £18.8 million as compared to 2008 and, whilst we will seek to grow the business in line with the opportunities and the economic recovery, cost control remains a strong focus for the business.

Ten dealerships were closed during the year and incurred operating losses of £0.3 million up to the announcement of closure.

OPERATIONAL & BUSINESS REVIEW CONTINUED

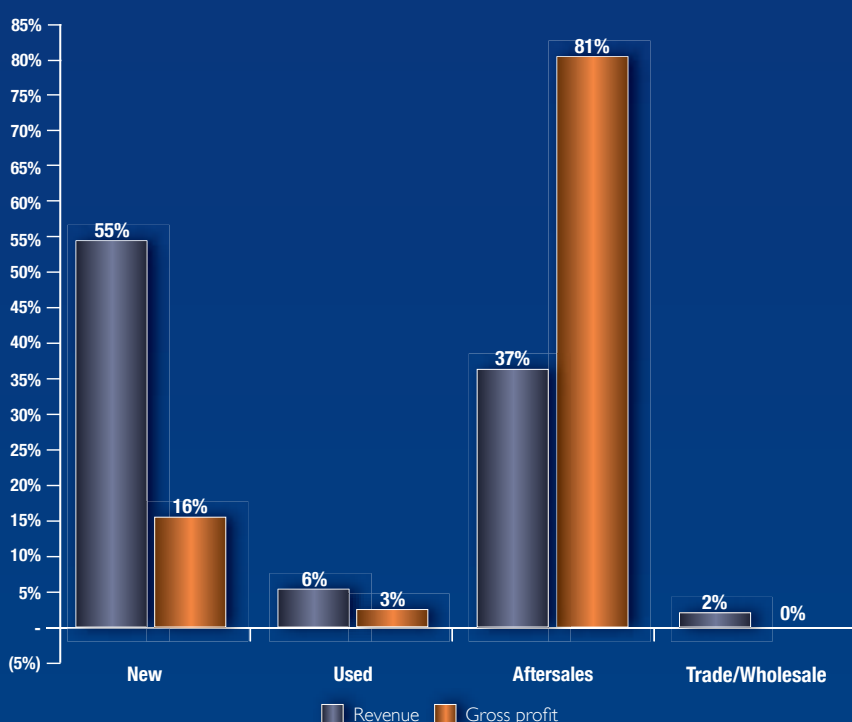
CHATFIELDS

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.

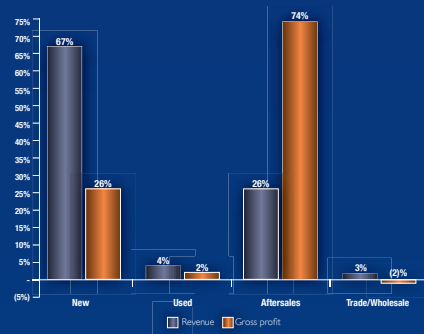
The market for new truck sales in 2009 was down by 39.5% overall whereas the van market was down by 35.6%. The commercial vehicle market has been affected by the economic downturn as customers defer purchases and the general economy slowed.

Nearly three quarters 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 operation of overnight servicing in many of the locations. Gross margins for new vehicles were in line with 2008 and used margins were up by nearly 2%.

2009



2008



Gross margin %	2009	2008
New	5.1%	5.2%
Used	7.5%	5.6%
Aftersales	37.2%	38.4%
Trade/Wholesale	(0.2%)	(7.5%)
Gross margin (%)	17.0	13.7
New & used units ('000)	2.5	4.1
PPU (£)	1,378	1,497

	Revenue £m	Gross profit £m	Gross margin %	Underlying operating profit/(loss) £m	Underlying operating margin %	Total units sold '000	Gross profit per unit £
Total 2009	107.6	18.3	17.0%	1.2	1.1%	2.5	1,378
Total 2008	174.5	23.9	13.7%	3.6	2.1%	4.1	1,497

Operating profit is down £2.4 million mainly due to the reduction in new van volumes. The market for new and used trucks has weakened

significantly and we expect it to remain subdued for the next 18 months. However, the aftersales business is likely to continue to be resilient.

OPERATIONAL & BUSINESS REVIEW CONTINUED

LEASING

In 2009 we commenced the consolidation of our IT platforms and introduced the new CFC Contract Manager 4 system within the business. Pendragon Contracts continues to offer a range of products and services mainly to the small corporate and medium fleet market for fleet sizes of up to 1,000 vehicles

The fleet size reduced due to external funders' higher credit underwriting policies and the significantly lower level of new vehicle contracts that were available in the market place given the broader economic conditions. The recovery in used vehicle prices ensured that margin and profit levels were maintained.

	Revenue £m	Gross profit £m	Gross margin %	Operating profit £m	Operating margin %	Fleet numbers '000
Total 2009	29.6	10.8	36.6%	8.0	27.2%	13.6
Total 2008	39.6	11.2	28.4%	8.7	21.9%	15.5

QUICKCO

Under our Quickco brand we operate an independent genuine parts wholesale business serving wholesale and dealer customers throughout the UK. Quickco operates seven different manufacturer franchises, from ten depots across the country, with an extensive fleet of vans making in excess of 60,000 deliveries per month on a next day or same day basis

capital. The segment of the customer base that faced the most challenging environment within the year was the accident repair market due to falling accident rates. Quickco focussed on reducing credit risk in this volatile market, reducing credit terms where appropriate. In addition Quickco was very successful in winning new contracts with national repairers and insurers where the credit risk is lower.

In 2009 there has been a continued focus on reducing costs and working

	Revenue £m	Gross profit £m	Gross margin %	Operating profit £m	Operating margin %
Total 2009	67.9	15.4	22.6%	1.7	2.6%
Total 2008	76.8	16.5	21.4%	1.5	1.9%

PINEWOOD

Pinewood is one of three main Dealer Management System (DMS) suppliers in the UK and has pioneered the delivery of Software as a Service (SaaS) in the motor industry. Pinewood's main product is 'Pinnacle', a browser based, web delivered DMS which manages and reports on most aspects of a franchised motor dealer's business.

External customer orders and implementations fell away at the end of 2008 and regular levels of activity did not resume until confidence returned in the second half of 2009 once dealers were happy to consider replacement dealer

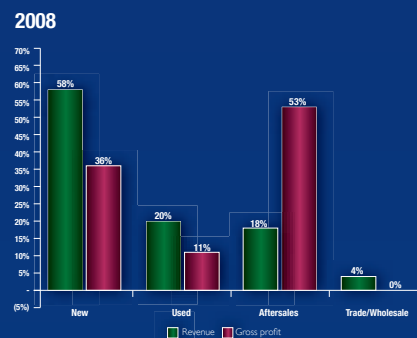
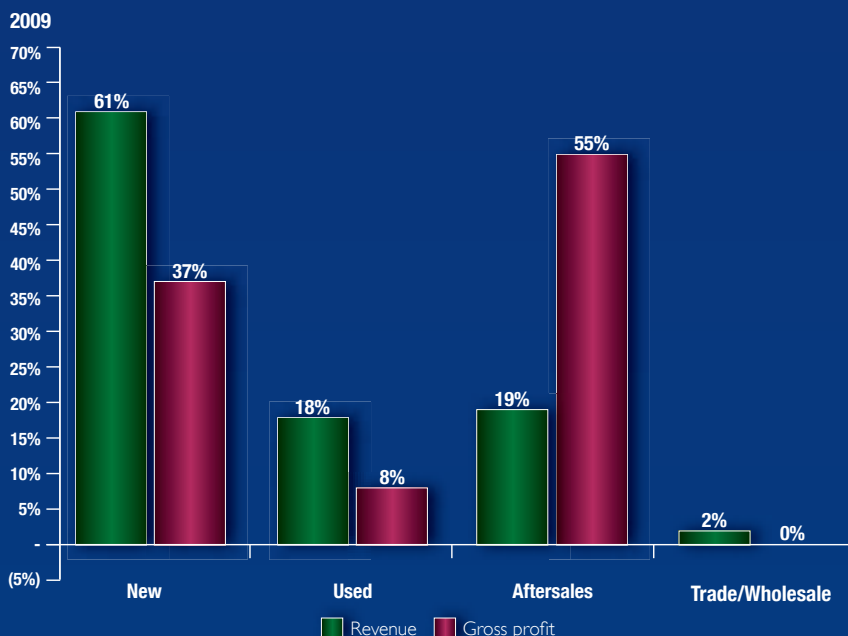
management systems. Group IT expenditure in 2009 has been reduced to reflect the change in dealership representation. Pinewood launched an Integrated Electronic Vehicle Health Check module in 2009 which has been implemented within the Stratstone and Evans Halshaw dealers. Early sales of this product to external dealers have been encouraging. Following interest from both dealers and manufacturers in South Africa, Pinewood has appointed a reseller in the region. Our reseller has secured orders and implementations commenced in 2009 with further implementations planned for 2010.

	Revenue £m	Gross Profit £m	Gross margin %	Operating profit £m	Operating margin %
Total 2009	21.2	14.9	70.2%	8.4	39.7%
Total 2008	25.9	15.9	61.4%	7.0	27.0%

OPERATIONAL & BUSINESS REVIEW CONTINUED

CALIFORNIA

At the end of the year the division consisted of nine franchises in Southern California which operate Jaguar, Land Rover and Aston Martin brands.



Gross margin %	2009	2008
New	10.8%	10.9%
Used	8.5%	10.1%
Aftersales	52.2%	52.8%
Trade/Wholesale	(1.8%)	(3.8%)
Gross margin (%)	18.0	17.5
New & used units ('000)	3.4	4.6
PPU (£)	3,337	2,670

	Revenue £m	Gross profit £m	Gross margin %	Underlying operating profit £m	Underlying operating margin %	Total units sold '000	Gross profit per unit £
Total 2009	139.7	25.1	18.0%	1.3	1.0%	3.4	3,337
Total 2008	148.9	26.1	17.5%	1.4	1.0%	4.6	2,670

The reduction in revenue is attributed both to market conditions adversely affecting unit sales, reduced service hours and to the reduced number of locations. In 2008, we sold our remaining Saab dealership in Santa Monica and we closed the loss making Saturn store. In January 2009 Bauer Jaguar was closed following the establishment of Jaguar and Aston Martin franchises from that site at the Newport Beach facility.

The reduction in gross profit is the result of lower vehicle sales and a 25% reduction in service hours due to reduced Jaguar unit sales, improved Land Rover product reliability and the reduction of manufacturer scheduled maintenance on Land Rover product in the USA.

Operating margins were maintained as a result of cost savings, particularly in payroll, and reduced property costs.

PROPERTY

Our property portfolio is an important aspect of our business which we seek to utilise in the most cost effective manner. We operate from both leasehold and freehold properties. In addition, through strategic investment choices and the decision to close some dealerships, we have a number of vacant property assets which are held for sale. At the year end we held £176.5 million of properties on the balance sheet as well as £26.6 million of properties held for sale.

In 2009 we disposed of five freehold properties which were operationally

surplus to requirements. This resulted in proceeds of £5.6 million and profit of £1.0million.

Regarding our investment in our joint venture property company, we continue to hold this investment at £nil. This is as a consequence of property values having fallen and the joint venture company being in breach of its banking covenants. The structure is non-recourse to the Group and therefore we have no obligations to the joint venture other than as tenants to pay the rents and as service provider to manage the property portfolio.

OPERATIONAL & BUSINESS REVIEW CONTINUED

CASH FLOW

Our borrowings as at 31 December 2009 were £315.4 million compared to £357.3 million at the end of 2008. Reduction of debt has remained a continuing area of strict control.

The cash flows of the business are summarised as follows:

	2009 £m	2008 £m
Underlying operating profit	53.4	25.8
Depreciation and amortisation	47.8	56.3
Non-underlying cashflow	(10.7)	(19.8)
Underlying working capital movement	2.3	(8.9)
Other items	0.5	0.2
Cash generated from operations	93.3	53.6
Net interest paid	(46.4)	(64.1)
Tax	2.3	15.0
Replacement capital expenditure	(15.1)	(18.3)
Free cash flow	34.1	(13.8)
Acquisitions	(4.0)	(14.5)
Disposals	6.2	21.0
Dividend	-	(15.9)
Other	5.6	(2.1)
Reduction / (increase) in net debt	41.9	(25.3)

Cash flow generated from operations was £93.3 million, which compares with £53.6 million generated in 2008. The underlying operating profit has increased by £27.6 million and underlying working capital has remained broadly flat year on year. The working capital cash outflow is stated after £12.7 million cash payments made to reduce the deficit in our pension schemes (2008: £19.0 million). Non-underlying cash flows, principally comprising costs related to redundancies and closed dealerships, were £10.7 million. In the prior year these cash flows included £6.8 million of VAT refund.

There has been a £17.7 million reduction in year on year net interest paid. This includes a reduction of £17.6 million in respect of stocking finance charges primarily as a result of the reduced stock levels. The main additional component of the reduction in interest cost is due to the lower bank base rates and lower debt, offset by the higher margins payable from the inception of the refinancing. The prior year interest cash flow includes the

benefit of £8.3 million interest received in connection with a VAT refund. Refunds of taxation payments made in advance in previous periods were £2.3 million in comparison to taxation refunds in 2008 of £15.0 million.

Replacement capital expenditure was £15.1 million which includes plant and machinery, fixtures and fittings and motor vehicles (2008: £18.3 million). Expenditure on plant and machinery and fixtures and fittings was £2.5 million (2008: £2.5 million). The balance of the expenditure of £12.6 million (2008: £15.8 million) is in respect of motor vehicles used either for our contract hire fleet or for service loan cars for our customers.

Business disposals raised £0.6 million in 2009 (2008: £7.7 million), which related to the sale of one dealership. Surplus property disposals raised £5.6 million (2008: £13.3 million).

OPERATIONAL & BUSINESS REVIEW CONTINUED

YEAR END FINANCING

The breakdown of funding at the year end was as follows:

	2009 £m	2008 £m
Bank	310.6	349.4
Finance leases	4.8	7.9
Net debt	315.4	357.3
Stock finance	126.2	134.1
Manufacturer finance arm	254.2	486.4
Total funding	695.8	977.8

When considering vehicle stocks from a funding risk view point we split the funding into that which is funded by the manufacturer through their related finance arm and that funded by ourselves through stock finance facilities and bank borrowings. Financing for stock other than through bank borrowings is shown in trade creditors in the balance sheet. Manufacturers' finance arms tend to vary the level of finance facilities offered dependent

on the amount of stocks their manufacturer wishes to put into the network and this varies depending on the time of year and the level of production. Manufacturer financed stock has been reduced dramatically during the year with the consequent reduction in finance creditors seen above and the resultant benefit to our stocking finance charges.

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 and the VAT treatment of sales of vehicles to certain disabled customers.

During the previous period a VAT refund of £6.8 million net of costs in respect of VAT overpaid on demonstrator vehicles over the period 1973 to 1996 was received together with a receipt of associated interest of £8.3 million disclosed within finance income.

At 31 December 2008 the Group had made provision of £26.8 million in respect of assessments raised by HM Revenue and Customs over the VAT treatment of sales of vehicles to certain disabled customers and the

VAT treatment of partial exemption within our finance and insurance operations. The latter issue has been resolved during the period with HM Revenue and Customs conceding the case. As a consequence of this the provision in respect of this matter of £16.2 million has been released and is shown as a non-underlying item. The provision at 31 December 2009 stands at £10.6 million in respect of the VAT treatment of sales of vehicles to certain disabled customers, which the Group continues to discuss with HM Revenue and Customs.

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 difficult at present to quantify them.

OUTLOOK

We expect the used car market to remain stable and aftersales to be resilient. In 2010 we therefore expect our used car margins to remain solid and aftersales to benefit from growth opportunities. We concur with the SMMT view that the new car market will remain subdued for the next 12 months. We believe a gradual improvement will then be seen.

We have taken actions which give us confidence that we will improve the performance of the Group in 2010 despite the anticipated difficult markets. The Group is now well placed to take advantage of markets when they recover and is currently trading in line with our expectations.

TREVOR FINN
CHIEF EXECUTIVE
12 March 2010

DIRECTORS & ADVISORS

Sir Nigel Rudd (63)

Non-executive Chairman (N) (R)

Appointed non-executive chairman of Pendragon in October 1989. He is chairman of BAA Limited, Invensys Plc and Marwyn Alternative Capital Limited. Sir Nigel chairs the Company's Nomination Committee.

John Holt (70)

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 (62)

Non-executive Director (A) (N) (R)*

Joined Pendragon in October 2004. Mr Davies is non-executive chairman of the Royal Mint, Marshalls PLC and The Manchester Airport Group PLC. He is the chairman of the Remuneration Committee.

David Joyce (61)

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 (52)

Non-executive Director (A) (N) (R)

Joined Pendragon on 1 March 2006. He is chief executive officer of Matrix Corporate Capital LLP and a member of the advisory board of Three Delta LLP. His background is in investment banking with a particular interest in commercial property. Mr Le May is also a non-executive director of Royal & Sun Alliance Insurance Group Plc.

Trevor Finn (52)

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 (49)

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.

Tim Holden (45)

Finance Director**

Joined Pendragon in June 2008 as group financial controller from KPMG LLP, where he was a senior manager advising on audit and transactional service matters. He is a chartered accountant. Mr Holden became finance director in December 2009.

Hilary Sykes (49)

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

† retires annually at the AGM, proposed for re-election

* retiring by rotation at the AGM, proposed for re-election

** retiring following initial appointment, proposed for election at the AGM.

Secretary

Hilary Sykes

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Facsimile 01623 725015

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Registrars

Capita IRG Plc
Northern House, Woodsome Park, Fenay Bridge,
Huddersfield, West Yorkshire, HD8 0GA

Bankers

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

Stockbrokers

Arden Partners Plc
Citigroup Global Markets Limited

Auditors

KPMG Audit Plc

Solicitors

CMS Cameron McKenna LLP

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES AND 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 15. Continuing the strategy adopted in 2008, we have further consolidated our business during 2009, identifying uneconomical or underperforming

dealerships and selling, closing or refranchising these, as appropriate. As the consolidation process nears completion, this is reflected in the number of businesses closed during the year, which is 24 (2008:53). The following summarises, by franchise, the 2009 dealership closures:-

Franchise	Closures	Franchise	Closures
Aston Martin	1	Hyundai	1
Chrysler Jeep	3	Jaguar	1
Citroen	2	Land Rover	1
Dodge	3	Peugeot	2
Fiat	1	SAAB	2
Ford	3	Vauxhall	1
Honda	2	Volvo	1

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the financial statements on pages 40 to 99. Throughout the year, the Board has continued to use free cash flow to reduce the Group's indebtedness. Group indebtedness reduced to £315.4m at 31 December 2009 compared to £357.3m at 31 December 2008. The focus will remain on continuing to reduce group

indebtedness throughout 2010. The Board does not intend to pay any dividends in the near term. The Board's intention is to return to a progressive dividend policy once the level of indebtedness has been sufficiently reduced and trading results have sufficiently improved. Movements in reserves are set out in the Statement of Changes in Equity on page 41.

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 15. 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 matters. 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 three years.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results. The key risk 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 page 26. Health and safety is addressed within the Corporate Governance Report on page 27.

Business Conditions and Adverse Economic Conditions, including Changes in Consumer Confidence and Credit Availability: The profitability of Pendragon's businesses is influenced by the economic environment in the

United Kingdom, where over ninety per cent. of its revenues are generated, and could be adversely affected by a worsening of general economic conditions in the United Kingdom. Factors such as unemployment levels, the level and volatility of equity markets, consumer confidence, the level of discretionary spending, fuel prices, interest rates, inflation, action taken by the UK Government relating to the taxation of engine emissions, road usage or fuel for vehicles and the availability and cost of credit could significantly affect the market for the sale of new and used vehicles. An adverse movement in any one or a combination of these factors could have a material negative impact on Pendragon's trading, financial position and prospects.

REPORT OF THE DIRECTORS CONTINUED

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Profitability can be significantly affected by the Level of New Vehicle Production:

A significant proportion of the Group's income is generated from vehicle manufacturers in the form of sales incentive programmes. These are typically structured to include a fixed payment once a pre-determined target level of new cars from the manufacturer is registered by a dealership or dealership group. In recent years, these manufacturer sales targets had not been adjusted downward to reflect declining demand levels. This, in turn, required dealers to reduce prices and/or pre-register new vehicles in order to meet the sales targets. Decreasing new car prices also negatively impacts prices and profit margins for used cars. Although recently manufacturers have, in general, reduced their sales targets to levels more readily achievable by vehicle dealers, there can be no assurance that these reductions will be sufficient to off-set the decline in demand for new vehicles or that these sales targets will not be increased in the future.

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, depending on the scale of our representation of its brands, 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.

Changes to Manufacturers' Incentive Programmes: We depend on the manufacturers for sales incentives, warranties and other programmes that are intended to promote and support new vehicle sales at our dealerships. Some of these programmes include customer rebates on new vehicles, dealer incentives on new vehicles, special financing or leasing terms, warranties on new and used vehicles and sponsorship of used vehicles sales. Manufacturers have historically made changes to their incentive programmes during each year. If manufacturers reduce or discontinue incentive programmes, this could have an adverse impact on our business.

Used Vehicle Prices, and therefore Profit Margins, can Decline Significantly

Used vehicle prices can decline significantly. As a significant proportion of our business comprises used vehicle sales, these declines can have a material impact on our business. The impact of declines in used vehicle prices manifests itself not only through reduced profits on sales, but also through related write-downs in the value of used vehicle inventory.

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.

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: (i) committed borrowing facilities from banks; and (ii) trade credit from suppliers. 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, independent used vehicle sellers, 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.

REPORT OF THE DIRECTORS CONTINUED

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

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.

Legislative Changes in Relation to the Distribution and Sales of Vehicles:

Pursuant to the Motor Vehicle Block Exemption Regulation (Commission Regulation EC 1400/2002) ("MVBER"), franchise agreements in the motor vehicle franchise sector are regulated by a specific EU competition law

regime. The MVBER permits the suspension of the usual competition rules in order to allow efficient, well-equipped pan-European networks of specialised distributors and repairers to be set up. Such a suspension is justified by the relatively high value and technical complexity of a motor vehicle.

Any modification of the MVBER could potentially have an adverse effect on the Group's franchised business operations. In 2010 the MVBER is due to expire, although there are proposals by the European Commission to extend it, as regards the primary motor retail market, until June 2013. Current indications are that, from June 2013, both new vehicle distribution and motor repair will be brought under the parallel block exemption covering agreements for distributions of all types of goods and services, with certain changes as regards specific regulation of the aftermarket taking effect from June 2010.

DIRECTORS

The directors of the Company are listed on page 16. Details of the terms of appointment and notice period of each of the current directors, together with their respective interests in the Company's shares, appear in the Remuneration Report on pages 28 to 37. The Combined Code and the Company's Articles of Association require directors to retire by rotation or, in the case of directors who have served more than nine years, annually. The notice of meeting describes the business of the Annual General Meeting and includes details of those directors proposed for election or 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 J H Holt and Mr MT Davies, each of whom, being eligible, will stand for re-election.

In addition, the following executive directors will stand for re-election: Mr Finn and Miss Sykes, who retire by rotation, and Mr T P Holden, who will stand for election, this being the first Annual General Meeting following his appointment. Each of the non-executive directors, Sir Nigel Rudd, Mr J H Holt, Mr D A L Joyce, Mr MT Davies and Mr M J Le May considers himself to have sufficient time to commit to the Company's affairs, notwithstanding other business commitments, and not to have any 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 2009 shares	31 December 2008 shares
T G Finn	Beneficial	17,384,496	17,384,496
Sir Nigel Rudd	Beneficial	11,000,000	11,000,000
M S Casha	Beneficial	5,101,972	5,101,972
H C Sykes	Beneficial	1,844,662	1,844,662
MT Davies	Beneficial	150,000	150,000
J H Holt	Beneficial	125,000	125,000
D A L Joyce	Beneficial	50,000	50,000
M J Le May	Beneficial	19,000	19,000
T P Holden	Beneficial	Nil	Nil

These shares include the investment shares the executive directors have acquired for the purposes of the 2006 Long Term Incentive Plan ("LTIP") pursuant to awards made in 2006, 2007 and 2008, further details of which appear in the Directors' Remuneration Report.

There have been no changes to the directors' interests shown between 31 December 2009 and the date of this report.

REPORT OF THE DIRECTORS CONTINUED

DIRECTORS CONTINUED

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 25.

Powers of the Company's Directors: Subject to the Company's 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, to offer and allot 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 in 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 which apply to a director, unless the director is ultimately held to

be at fault. In line with market practice, each director has the benefit of a deed of indemnity which includes 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 SHAREHOLDINGS

At 28 January 2010 the directors had been advised of the following interests in the shares of the Company:-

Shareholder	Shares	%
Schroder Investment Management	66,455,908	10.04
JP Morgan Asset Management	57,912,822	8.75
AEGON Asset Management	47,347,319	7.15
Standard Life Investments	36,232,539	5.47
Odey Asset Management	35,923,653	5.43
Legal & General Investment Management	26,109,010	3.94

SHARE CAPITAL

As at 31 December 2009, 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 86. The Company issued 5,950,367 new shares during the period under review, relating to the exercise of effective

date and subsequent date share warrants, issued following the refinancing of the Company in April 2009. The rights and obligations attaching to the Company's ordinary shares are set out 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.

REPORT OF THE DIRECTORS CONTINUED

SHARE CAPITAL CONTINUED

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) 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 5 pence 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 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 the 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 20 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 SHARES/SAVE SCHEME

The Company continues to encourage 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" and the "Pendragon 2008 Sharesave Scheme"). As at 31 December 2009, 2,501 team members, representing 25.92% of total team members participated in the scheme. Share options are exercisable by participating team members upon expiry of either 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 27 to the financial statements on page 89.

Shares Held by the Pendragon Employee Benefit Trust: The Company established an Employee Benefit Trust in June 1999 with Investec Trust

(Guernsey) Limited. As at the 31 December 2009, the trustee held 19,066,591 shares, representing 2.88% of the total issued share capital at that date, which are intended to be used to satisfy options under the Pendragon 1999 Approved Executive Share Option Scheme, the Pendragon 1999 Unapproved Executive Share Option Scheme, the Pendragon 1998 Sharesave Scheme and the Pendragon 2008 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, no shares were transferred to beneficiaries of any of the Company's share schemes by the trustees of the Employee Benefit Trust.

REPORT OF THE DIRECTORS CONTINUED

ARTICLES OF ASSOCIATION

The Company's existing Articles of Association were adopted by special resolution at the Annual General Meeting held on 25 April 2008. The implementation in the UK of the EU Shareholder Rights Directive in August 2009 increased the minimum notice period for Company general meetings to 21 days. The Board nevertheless believes that it should ensure that the minimum period for notice of meetings of the Company can remain at 14

days, and accordingly a special resolution will be put to shareholders to approve 14 days as the minimum period of notice for all general meetings of the Company other than AGMs. Full details of this resolution are contained in the notes accompanying the notice of Annual General Meeting. This is a request for the renewal of a similar authority, given by shareholders at the Company's 2009 AGM.

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 regulation so that generally a vehicle manufacturer cannot terminate where the new controlling entity already holds that manufacturer's brand of franchise.
- A Facilities Agreement dated 3 December 2005, (as subsequently amended and supplemented by amendment letters dated 3 February 2006, 14 February 2006 and 17 February 2006, an amendment and

restatement agreement dated 8 March 2006 and an override agreement dated 30 April 2009 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 Pendragon up to an aggregate sum of £530 million – in the event of a change of control, the lenders under this facility are able to cancel the facility and declare all outstanding together with accrued interest, commission and other amounts immediately due and payable.

- 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 in April 2012 and US \$67,000,000 5.95% Guaranteed Senior Loan Notes Series B due in April 2012 subsequently amended and supplemented by an override agreement dated 30 April 2009. 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 page 27 of the Corporate Governance Report. No political donations were

made (2008: £ nil) and the Company does not intend the Company or any member of the Group 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 2009 was 65 days (2009: 61 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
12 March 2010

CORPORATE GOVERNANCE REPORT

Pendragon PLC is committed to maintaining the highest standards of corporate governance, recognising that good governance helps the business deliver its vision of being "the Number One Choice" for all its stakeholder groups, reflected in the following value statements:-

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 focussed 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

For the year under review, the appropriate corporate governance provisions are as set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "Code"), the UK Listing Rules issued by the UK Listing Authority and the Disclosure Rules and Transparency Rules issued by the Financial Services Authority.

COMPLIANCE WITH THE CODE

The Board is responsible for the policies and controls implemented to ensure that the Company discharges its responsibilities under the Code. The Board considers that Pendragon PLC complied in full with the provisions of the Code for the whole of period under consideration. This

statement, together with the Director's Remuneration Report on pages 28 to 37 provides the information to enable shareholders to evaluate how the principles of corporate governance have been applied.

THE BOARD OF DIRECTORS

Board Composition: As at 12 March 2010, the Board of Pendragon PLC comprised of four executive directors, four non-executive directors and the non-executive Chairman. The roles of Chairman and Chief Executive remain distinct and separate, with clear divisions of accountability and responsibility agreed by the Board and set out in a written statement, available on the Pendragon PLC website.

Role of the Board: The Board has overall responsibility for controlling the Group and making decisions relating to the Group's strategic direction as well as the strategic direction of its individual trading businesses. The Board provides the necessary leadership to enable business objectives

to be met, whilst safeguarding the interests of shareholders. The Board also retains overall responsibility for the following matters: acquisition and divestment policy, approval of major capital expenditure projects, consideration of significant financing matters, financial control and risk management, health and safety, environmental compliance, annual budgeting and budget monitoring, appointments to the Board and approving policies relating to directors' remuneration and severance. Certain matters of an operational nature are dealt with by the executive directors within their capital expenditure authority. Certain of the Board's duties are delegated to committees of the Board, whose responsibilities and composition are set out on pages 25 to 26 of this Report.

CORPORATE GOVERNANCE REPORT CONTINUED

THE BOARD OF DIRECTORS CONTINUED

Meetings and Attendance: Full meetings of the Board are ordinarily held at least on a bi-monthly basis, with additional meetings called as and when

required. The attendance* of directors at meetings of the Board and (where applicable) its committees, is set out in the table below:-

Director	Board	Ad Hoc†	Audit	Remuneration	Nomination
Sir Nigel Rudd (N, R)	10/11	2/6	n/a	2/3	1/1
J H Holt (A, N, R)	11/11	6/6	6/6	3/3	1/1
M T Davies (A, N, R)	8/11	6/6	4/6	3/3	0/1
D A L Joyce (A, N, R)	10/11	5/6	5/6	3/3	0/1
M J Le May (A, N, R)	9/11	6/6	5/6	3/3	1/1
T G Finn	11/11	5/6	n/a	n/a	n/a
M S Casha	11/11	5/6	n/a	n/a	n/a
H C Sykes	11/11	6/6	n/a	n/a	n/a
T P Holden**	n/a	n/a	n/a	n/a	n/a
D R Forsyth***	11/11	6/6	n/a	n/a	n/a

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

† During the year, a number of ad hoc meetings of the Board were held to cover exceptional business in connection with the refinancing which occurred in April, and the Company's joint venture interests.

* Attendance is displayed showing the number of meetings attended out of the total directors were eligible to attend e.g. 11/11 means 11 out of 11 of the meetings held were attended.

** T P Holden was appointed to the Board on 11 December 2009. There were no meetings between the date of Mr Holden's appointment and the 31 December 2009 which he was eligible to attend.

*** D R Forsyth resigned from the Board on 10 December 2009.

Operation of the Board: 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. Detailed information papers are circulated to directors between meetings. All meetings of the Board are structured to allow open discussion by all directors and to ensure that no single individual or group dominates the decision-making process. The Chairman holds meetings with the non-executive directors without the executive directors present when he deems it appropriate. In addition to formal meetings of the Board, informal meetings to familiarise with particular operations, address strategic matters or discuss new developments are held as appropriate. The Company Secretary attends all Board meetings and is responsible for advising the Board and its committees on corporate governance and matters of procedure, as well as facilitating the flow of information within the Board. All directors have access to the services of the Company Secretary and may take independent advice at the Company's expense, as well as requesting information from the Company to enable informed judgements to be made and duties adequately discharged.

Balance and independence: The non-executive directors complement the skills and experience of the executive directors, providing the requisite degree of independent judgement and scrutiny to the decision-making process at Board and committee level. All non-executive directors, excluding the Chairman, are determined by the Board to be independent. Mr J H Holt, is the senior non-executive director of the Company. Due to the rebuttable presumption in the Code that a director who has served for more than nine years is not independent, Mr J H Holt would not, due to his long service, be treated by the Code as independent. The Company rebuts this presumption and continues to regard Mr J H Holt as independent, on the basis that, notwithstanding his length of service, throughout the year, Mr Holt remained independent in character and judgement and fully committed to his role. There are no relationships or circumstances in relation to any

director which are regarded by the Company as affecting his exercising independent judgement.

Performance Evaluation: The Board annually reviews its composition and that of its committees, together with the respective contribution of each director. The process for evaluating the performance of the Chairman and non-executive directors, the Board committees and the Board as a whole is well-established. It considers the adequacy and appropriateness of the skill set of the Board, taking into account new developments in the Company's business and strategy and the range of experience and expertise represented. The evaluation also considers the responsibilities of each director's role as set out in the Code, including capability and time commitment. For the year under review, 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. 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.

The latest Board evaluation process concluded that the Board and its committees were operating effectively, with clear demarcation of the respective responsibilities of individual directors and Board committees. The Board is satisfied that the Chairman and each non-executive director are able to devote the amount of time required to attend to the Company's affairs and his duties as a Board member.

Re-election of Directors: In accordance with the Company's Articles of Association, all newly appointed directors are subject to election at the first Annual General Meeting following their appointment, and all directors seek re-election by rotation at least once every three years.

CORPORATE GOVERNANCE REPORT CONTINUED

THE BOARD OF DIRECTORS CONTINUED

Directors' conflicts of interest: The Company's Articles of Association permit the Board to consider, and if it sees fit, to authorise directors' conflicts of interest. Conflicts of interest can include situations where a director has an interest that directly or indirectly conflicts, or may possibly conflict with the interests of the Company. The Board operates a formal system for directors to declare all conflicts at Board meetings to be considered by those directors who have no interest in the matter being considered. In

deciding whether to authorise a conflict, the non-conflicted directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company, and when giving authorisation, or subsequently, they may impose limits or conditions if deemed appropriate. Any conflicts considered by the Board, and any authorisations given, are recorded in a register of conflicts which is reviewed annually by the Board.

BOARD COMMITTEES

The Board delegates certain matters to committees of the Board, each of which operates under written terms of reference and which specify the conferred powers on them to deal with certain aspects of the Company's affairs. These, together with the committees' membership, can be found on the Pendragon PLC website, at www.pendragonplc.com.

Nomination Committee: The Committee is composed of the non-executive directors, and its Chairman is Sir Nigel Rudd. The Committee met once in 2009. 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 involves a detailed process, from the identification of the vacancy to the making of a recommendation to the Board for an appointment. All Board members are given the opportunity to meet a recommended candidate before a nomination is put to the Board.

Further rules for the appointment and replacement of the Company's directors are detailed in the Company's Articles of Association.

Remuneration Committee: The chairman of the Remuneration Committee is Mr MT Davies. The Committee is composed of the non-executive directors, including the Company's Chairman, and meets at least once a year. In 2009 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, 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 28 to 37.

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). Meetings 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 six times in 2009.

The meetings in quarters one and three 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. Additional meetings, held in quarters two and four, are concerned primarily with the review of the Company's systems of control and their effectiveness, the external audit plan for the year, the audit fee and significant corporate governance issues, such as those with Financial Services regulation implications.

The Audit Committee has reviewed the effectiveness of the Company's system of internal financial control and risk management during the year ended 31 December 2009. This review has included consideration of detailed reports from internal and external auditors, and consideration of reports of the Company's Risk Control Group, including review of the Company's key risk register. The Audit Committee has reported the results of its work to the Board, and the Board has considered these reports when reviewing the effectiveness of the Group's system of internal control, which forms part of a high level risk assessment review performed during the year.

The Audit Committee has reviewed arrangements for employees to raise, in confidence, concerns about possible improprieties in relation to financial reporting or other matters. The Committee reviews at least twice annually any follow up action taken, together with procedures for the reporting and recording of suspected fraud and dishonest acts. 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.

CORPORATE GOVERNANCE REPORT CONTINUED

BOARD COMMITTEES CONTINUED

During the year the Committee chairman has carried out an evaluation of the Company's external auditor KPMG Audit Plc, and reviewed the effectiveness of the external audit process. The review concluded that the external auditors were performing their functions effectively, and the Committee recommended their re-appointment to the Board.

The Committee has also reviewed the independence and objectivity of the external auditor, where engaged in the provision of non-audit services. 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 63. The Committee has concluded that the provision of non-audit services has not impaired audit independence.

Aegon Actuarial Services (part of the Scottish Equitable Plc group of companies) continue to act as advisors and actuary for the Company's occupational pension schemes, having been selected by competitive tender.

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. For further information concerning the Group's liquidity and financing risk, see page 18 of the Report of the Directors and note 17 to the Financial Statements, together with the directors assessment of going concern.

RISK MANAGEMENT AND SYSTEMS OF INTERNAL CONTROL

The Board is responsible for risk management and internal control within the context of achieving the Group's objectives. The Board has used a risk-based approach in establishing a robust internal control system. The system is 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. Operational management is charged with responsibility for identifying and evaluating risks facing the Group's businesses on a day-to-day basis, considering all financial, transactional, technological, political, regulatory, reputational,

socio-economic and physical risks. Operational management is supported in this role by a multi-disciplinary team, known as the Risk Control Group.

The Board has performed a high level risk assessment during the year. Major commercial, technological and financial risks are assessed taking into account any adaptations of the Company's business strategies and measures designed to mitigate or meet any specific commercial and other risks or threats.

MANAGEMENT STRUCTURE

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

Executive Committee: day-to-day management of the Group is delegated to the Executive Committee which comprises the four executive directors and is chaired by the Chief Executive, Mr T G Finn. The Chief Executive, is responsible for implementation of the strategy set by the Board. The Executive Committee meets regularly and facilitates the communication and implementation of the overall Company strategy and the Executive Committee's decisions to the rest of the Group.

Operational Board: The Group consists of two principal operating divisions, Evans Halshaw for volume franchises and Stratstone for luxury franchises, together with four ancillary divisions (Information Technology, Parts Supply & Distribution, Finance & Insurance and Contract Hire). The principal operating divisions are divided into franchise groups, each headed by a National Franchise Director. National Franchise Directors participate in a

monthly operational board meeting, chaired by the Chief Operating Officer, at which business performance and the effectiveness of key operating controls are considered.

Investor 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. In the main, shareholder communication is based around analyst/shareholder visits at key points in the financial reporting year, conducted by the Chief Executive and the Finance Director. 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. The Chief Executive and Finance Director feed back any investor comments to the Board. 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").

CORPORATE GOVERNANCE REPORT CONTINUED

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 made available on the Company's website, or despatched to shareholders, together with the Notice of AGM, giving the requisite period of notice. The business being proposed at the AGM will be summarised in the Notice of AGM.

CORPORATE SOCIAL RESPONSIBILITY

Involvement and Development: The Group continues to recognise 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. Programmes focused on quality and customer service provide an opportunity for everyone to be involved in making improvements and in developing their own skills to that end. The Company has been awarded Investors in People accreditation, first achieved in 1999, and subsequently renewed in 2006 and 2009. As a result of the Company's sustained team member development and involvement programmes, the Company was particularly commended by the "Investors" assessment for achieving this result in the difficult trading environment of 2009.

Share schemes and incentives: Team members' share ownership is encouraged through the Company's Sharesave scheme, which attracts membership from all levels within the business. A variety of bonus schemes also provide team members with rewards linked to the growth and prosperity of the business. At 31st December 2009 a total of 3,353 team members (34.75%) participated in ownership of shares and/or schemes linked to the Company's share performance (2008: 15.72%).

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 as well as newsletters keep team members up-to-date with the Company's strategy and performance. The Group's leaders channel these communications, and regular briefings for all team members, held at each location provide a forum for sharing both Company and local information. At all levels, communications aim particularly to recognise the achievements of individual team members and celebrate outstanding business performance, through peer recognition and widely publicised awards.

Community: As a multi-site, predominantly retail operator, the Group generates its community involvement through its local businesses. These contribute to their local areas in a variety of ways. At a national level,

predominantly through its Stratstone brand, the Group is a key sponsor and fundraiser for "Sparks", the children's medical research charity. In addition, individual team members and our local businesses organise charity events to support local schools, hospitals and medical charities as well as Comic Relief and the BBC's Children in Need Appeal. The Company supports and encourages these activities and welcomes the opportunities they present for team-building within the businesses and engagement 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 is registered with the Department of the Environment, Food and Rural Affairs' carbon reduction commitment scheme. 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 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 monitoring by a variety of means. The Company encourages its team members to report all accidents and near misses, whether serious or not. This allows suitable investigation and relevant corrective action to be taken. The Company's health and safety policy is available on the Pendragon PLC website.

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE

The remuneration policy is determined by the Board and is described below. At 31st December 2009, 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. (the "Committee"). The Committee meets as often as necessary

to discharge its duties, which, during 2009, was three times. Details of members' attendance are set out on page 24 of the Corporate Governance Report. The Committee operates within specific terms of reference, which are available on the Company's website.

REMUNERATION POLICY

The Committee's conclusions and policies implemented during 2009 can be summarised as follows:-

- Annual performance related pay ("PRP") for 2009 to be capped at 100% of salary, but with two performance measures, these being EBITDA (50%) and year end closing net debt (50%), chosen to reflect key elements of the Company's business plan. With regard to the targets set, these were aligned with the business plan prepared in conjunction with the Company's refinancing exercise undertaken at the start of the year under review. As part of this process, the targets were subject to external scrutiny. The performance of the business during the year under review significantly exceeded the targets agreed at the time of refinancing resulting in the maximum performance related pay being awarded. In challenging circumstances, the Committee is comfortable that performance related pay awards were warranted, given management's performance delivering financial results well ahead of expectations.
- Reviewed executive director's remuneration. No salary increases were awarded to executive directors, with basic salary levels remaining unchanged from 2008 levels.
- Obtained shareholder approval of a new executive shared ownership plan, known as the ExSOP.
- Obtained shareholder approval for the renewal of conventional share option schemes, known as the Pendragon 2009 Approved and Unapproved Share Option Plans, to be used principally for share options to below Board level executives.
- Determined not to make awards to executive directors under any combination of the available share incentive schemes. The decision not to grant long-term incentive awards was taken after considering the volatility of the Company's share price through the refinancing exercise undertaken in the first quarter of the year.

ADVISERS

During 2009, Sir Nigel Rudd and Mr T G Finn provided internal advice to the Committee but not in respect of their own pay. In addition, external advice on long term share based incentive schemes was received from

Pinsent Masons LLP and Hewitt New Bridge Street. The secretary to the Committee is Richard Maloney, the Group Solicitor.

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. The Company considers that the remuneration of the non-executive

directors is consistent with the time commitments associated with individual positions and wider market practice among companies of a comparable size. Remuneration for the chairmanship of Board committees, and the fees payable to the Chairman, first introduced in 2007, were considered to remain appropriate for 2009.

DIRECTORS' REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS REMUNERATION POLICY

The Company's policy in respect of executive director's 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.

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 for the next generation of executive directors, in 2005, the Company adopted share ownership guidelines. These guidelines encourage executive directors to hold shares costing 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 interests in shares is displayed in the table at page 19 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 2009, it was not felt appropriate, given the continued difficult economic climate, to increase the base salaries of the

executive directors. The Committee therefore remained satisfied with both the salary levels and the existing 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, with the exception of the newly appointed director, Mr Holden, who continued to participate in the Pendragon Group Pension Scheme, a defined contribution pension scheme into which the Company makes a contribution of 10% of his basic salary.

Mr Casha and Miss Sykes remain entitled to a deferred pension, calculated

up to the date of leaving the Pendragon Pension Plan. Details of their entitlements are set out on page 36. Mr Finn, Mr Casha and Miss Sykes continue to receive a payment in lieu of pension contribution, which is circa to 26% of salaries. This payment is not consolidated into the base salary for the purpose of future annual PRP payments or the LTIP, but will be monitored as a percentage of base salary.

ANNUAL PERFORMANCE RELATED PAY

The executive directors can earn up to 100% of salary in any one year on a sliding scale, with 50% being awarded for achieving a defined EBITDA target and a further 50% for achieving reductions in year end net debt. Performance Related Pay is not pensionable. With regard to the targets set, these were aligned with the business plan prepared in conjunction with the refinancing of the Company during the first quarter of 2009 and were therefore subject to external scrutiny. The structure of the targets was a sliding scale set in line with the Company's business plan as agreed with

the Company's banks, and were considered realistic but stretching in the prevailing economic conditions. In practice, the slowly improving economic conditions and the decisive action taken by management to reduce costs combined to produce actual performance exceeding the top end of the target range resulting in maximum performance related pay becoming payable. The Committee is comfortable with the level of performance related pay given the rigour, detailed analysis and external scrutiny applied in the setting of targets during the first quarter.

DIRECTORS' REMUNERATION REPORT CONTINUED

EQUITY INCENTIVES

The extraordinary market and economic conditions first experienced in 2008 continued in the main throughout 2009 and have rendered the performance conditions for all LTIP awards made to date difficult or unattainable. In our 2008 annual report, we reported that the Committee conducted a review of the range of equity incentives available to the Company for awards to executive directors and below Board executives. It was concluded that the Company should maintain the flexibility to make incentive awards to executive directors under conventional approved and unapproved market value share option schemes, subject to suitably stretching performance targets. Since the Company's existing share option plans were due to expire in 2009, shareholder approval was sought for replacement plans at the 2009 AGM. In addition, it was considered appropriate to introduce an additional share plan (the ExSOP) under which executives may elect to pay tax up-front so that, on vesting, the award is subject to capital gains tax as opposed to income tax. As a result, shareholder approval was obtained for a new suite of market value share option plans at the 2009 AGM (including the ExSOP and HM Revenue & Customs approved and unapproved plans). Summary details of the new plans are included on page 31 along with details of other equity incentives operated by the Company.

Shareholder approval for new market value share option plans was given at the 2009 AGM but no awards were granted under the new plans (or under any share plans) to executive directors during the year. Since the Committee had resolved that, going forward, market value share options should be the currency of long-term incentive awards, it did not consider it appropriate to grant awards at a time when the share price was unusually volatile. As a result, awards were delayed and will take place in the current year. Use of market value options is considered appropriate for future years,

as it focuses executives on achieving share price growth in tandem with challenging targets linked to the long-term business plan of the Company.

The Committee's grant policy is to enable executive directors to choose to receive awards under either the conventional market value option plan (the 2009 Pendragon Approved and Unapproved Option Schemes) or the ExSOP (which has a similar economic effect to a market value option). Irrespective of the plan used (details of each are set out below), the same challenging performance targets will apply.

Performance conditions for any equity incentive awards will continue to be set at the time of the award. Based on the recommendations of the Committee, following appropriate consultation with shareholders, the Company will continue to ensure that equity incentives encourage enhanced performance in the short and medium term, as well as the achievement of the Company's longer term strategic goals. It is currently anticipated that a challenging sliding scale of EPS targets will apply to awards to be granted during the current financial year, to ensure that executives are incentivised to grow earnings and the share price in tandem. The Company is in the process of consulting its major shareholders in relation to the targets, prior to granting awards, and the targets adopted will be set out in full in next year's directors' remuneration report.

When assessing the extent to which awards vest, the audited results of the Company are considered in relation to targets set against internal financial measures of performance (e.g. EPS) and relative TSR (where relevant), tested by an external provider. The results are reviewed by the Committee.

SHARE OPTIONS

The Company obtained approval at its 2009 annual general meeting for the Pendragon 2009 Approved Executive Share Option Scheme and Pendragon 2009 Unapproved Executive Share Option Schemes ("Schemes"), replacing similar schemes which expired on 25 April 2009. All senior team members are eligible to participate in the Schemes. The Pendragon 2009 Approved Share Option Scheme is an HM Revenue & Customs approved discretionary share option plan whereby share options can be granted to team members over shares with an initial market value of £30,000. If such options are exercised after three years, then they will qualify for exemption from

income tax and national insurance contributions on the growth in value of the shares from the date of grant. The Pendragon 2009 Unapproved Executive Share Option Scheme is designed to be used to grant awards to team members who already have awards under an approved scheme up to the £30,000 limit. The executive directors continue to be eligible to participate in the Schemes, although none has received awards under the Schemes in 2009. The executive directors also 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 01.01.09	Number of options lapsed during year	Number of options exercised during year	Number of options granted during year	At 31.12.09	Exercise price (pence)	Exercise period
T G Finn	-	-	-	*7,357	*7,357	24.67	01.08.12 to 31.01.13
M S Casha	*27,355	-	-	-	*27,355	60.4	01.07.10 to 31.12.10
H C Sykes	*14,450	-	-	-	*14,450	24.56	01.07.10 to 31.12.10
	*21,880	-	-	-	*21,880	60.4	01.07.10 to 31.12.10
	-	-	-	*7,357	*7,357	24.67	01.08.12 to 31.01.13
T P Holden	75,000†	-	-	-	75,000†	10.39	19.09.11 to 18.09.18
	-	-	-	*7,357	*7,357	24.67	01.08.12 to 31.01.13
D R Forsyth††	*27,355	27,355	-	-	-	60.4	01.07.10 to 31.12.10
		7,357	-	*7,357		24.67	01.08.12 to 31.01.13
Total	166,040	34,712		29,428	160,756		

None of the directors exercised share options during 2009 and none were exercisable.

There have been no changes in director's share options outstanding or exercised since the 31st December 2009.

*Sharesave options under the Pendragon 1998 or 2008 Sharesave Schemes that have no performance conditions.

† Awarded under the Pendragon 1999 Approved Executive Share Option Scheme prior to appointment to the Board.

†† Mr Forsyth resigned from the Board on 10 December 2009, and consequently all his entitlements to Sharesave options have lapsed.

The directors' beneficial interests in shares is displayed in the table at page 19 of the Report of the Directors.

PENDRAGON 2009 EXECUTIVE SHARED OWNERSHIP PLAN ("ExSOP")

The ExSOP is a new form of incentive plan approved by shareholders in 2009. The ExSOP is a selective share incentive plan entailing the recipient of an award to acquire jointly, with an employees' trust, ordinary shares in the Company, and benefiting thereafter from any growth in the market value of the jointly-owned shares. Vesting of the ExSOP shares may, and in the case of executive directors, will, be made subject to performance conditions relating to a minimum three year period. The ExSOP differs from a conventional share award in that, from the outset, the participant holds a restricted interest, as joint owner, in ExSOP shares. A participant pays a nominal amount to acquire such interest, and insofar as he does not pay the full taxable value of his interest, will incur an up-front charge to income tax and national insurance which must be agreed with HMRC at award. This is non-refundable should vesting not occur. The up-front amount charged upon acquisition of the interest is instead of the payment

of an option price at the time of exercise, as would be the case with a conventional award. The ExSOP is structured on the basis that any gain realised by a participant upon a disposal of the jointly owned shares will be charged to capital gains tax, and that there will be no liability to income tax or NICs. From the Company's perspective, the corporation tax treatment is more favourable at grant, where a corporation tax deduction equal to the up-front tax charge paid by the executive is received, and less favourable on vesting, where there is no corporation tax deduction available on the value of vested shares. On balance, since the tax treatment is more favourable to the Company on grant and because of the potential employers' NIC savings for the Company under the plan, it is comfortable with offering the plan to executives. Any costs arising from operating the plan over the longer term will be assessed in comparison to alternative plan structures. No awards have been made under the ExSOP since its adoption.

DIRECTORS' REMUNERATION REPORT CONTINUED

LONG TERM INCENTIVE PLAN ("LTIP")

The Pendragon Long-Term Incentive Plan ("LTIP") was adopted in 2006. The LTIP allows executive directors to re-invest their annual performance related pay 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"). Investment Shares will then be matched with an award over shares with the same pre-tax value as the monies used to buy the Investment Shares, known as Matching Shares. 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 the relevant performance conditions have been satisfied; and (c) to the extent that the Investment Shares purchased by the executive have been retained for the three years.

LTIP 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 occurs on the third anniversary of the grant date, provided that the executive is still employed by the company and the performance conditions as outlined above have been satisfied

and provided that the adjusted EPS growth targets are satisfied and the Company outperforms the total shareholder return ("TSR") of 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 33.

DIRECTORS' REMUNERATION REPORT CONTINUED

LONG TERM INCENTIVE PLAN ("LTIP") CONTINUED

DIRECTOR'S LTIP AWARDS Details of the conditional awards made to the then incumbent executive directors¹ under the LTIP in 2006, 2007 and 2008 are set out below. There were no LTIP awards made in 2009. The performance periods for the 2006 LTIP awards ended on 31 December

2009. The performance criteria for vesting were not met and therefore the corresponding Matching and Performance awards have been treated as lapsed.

	Interests under LTIP at 01.01.09	Exercised	Lapsed	Total interests under LTIP at 31.12.09	Date of award	Total of all investment shares purchased as at 31.12.09	Vesting date (subject to conditions being satisfied)
T G Finn							
Matching Shares 2008	336,828	-	-	336,828	31.03.08	191,017	31.03.12
Performance Shares 2008	1,439,440	-	-	1,439,440	31.03.08	n/a	31.03.12
Matching Shares 2007	176,222	-	-	176,222	15.03.07	100,731	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 2008	187,129	-	-	187,129	31.03.08	106,122	31.03.12
Performance Shares 2008	799,689	-	-	799,689	31.03.08	n/a	31.03.12
Matching Shares 2007	97,901	-	-	97,901	15.03.07	55,962	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	199,355	-	199,355	-	09.05.06	n/a	09.05.09
H C Sykes							
Matching Shares 2008	93,566	-	-	93,566	31.03.08	53,062	31.03.12
Performance Shares 2008	399,844	-	-	399,844	31.03.08	n/a	31.03.12
Matching Shares 2007	48,950	-	-	48,950	15.03.07	27,981	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
D R Forsyth†							
Matching Shares 2008	130,991	-	130,991	-	31.03.08	74,286	31.03.12
Performance Shares 2008	559,782	-	559,782	-	31.03.08	n/a	31.03.12
Matching Shares 2007	68,530	-	68,530	-	15.03.07	39,173	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

†Mr Forsyth resigned from the Board on 10 December 2009, and consequently all his entitlements under the LTIP have lapsed.

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 2009 was 23 pence and the range during the year was 1.75 pence to 45 pence.

DIRECTORS' REMUNERATION REPORT CONTINUED

DIRECTORS' SERVICE CONTRACTS

All executive directors have service contracts which do not have an expiry date but can be terminated on the Company giving one year's notice. With the exception of Mr Holden, all executive directors' service contracts commenced on 20 December 1999. Mr Holden's service contract commenced on 11 December 2009, the date of his appointment. 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 the Directors at page 20.

The Company's policy for executive directors' service contracts is to be reviewed in the current year in light of emerging best practice investor guidelines. The Committee currently intends to set its future policy, as

far as practicable, with regard to the provisions included in the 2008 joint statement on service contracts and severance. Following the conclusion of this review, a forward looking policy statement will be included in next year's directors' remuneration report. Historically, the policy has taken full account of the considerable consolidation that has taken place in the Company's sector. This issue will be duly considered when determining any new policy.

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 the Directors at page 20. The Company continues to believe that these provisions are appropriate.

NON-EXECUTIVE DIRECTORS

Each non-executive director has a fixed two year contract, renewable upon expiry at the Company's discretion. 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	01.01.09	31.12.10	10
J H Holt	01.01.10	31.12.11	22
MT Davies	01.01.09	31.12.10	10
D A L Joyce	01.01.10	31.12.11	22
M J Le May	01.01.10	31.12.11	22

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 both executive and non-executive directors' respective contracts 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. This would be decided on a case by case basis.

DIRECTORS' REMUNERATION REPORT CONTINUED

DIRECTORS' EMOLUMENTS FOR THE YEAR TO 31 DECEMBER 2009 (AUDITED INFORMATION)

	Salary/fees £000	Committee /chair fees £000	Performance related pay £000	Benefits* £000	Termination payments £000	Salary supplement in lieu of pension contribution £000	Total emoluments 2009 £000	Total emoluments 2008 £000
Executive directors								
T G Finn	464	-	464	29	-	121	1078	636
M S Casha	258	-	258	33	-	67	616	349
H C Sykes	129	-	129	20	-	33	311	178
T P Holden†	11	-	-	1	-	-	12	n/a
Executive Director retiring from the Board during the year								
D R Forsyth††	177	-	-	23	352	44	596	253
Non-executive directors								
Sir Nigel Rudd	160	-	-	-	-	-	160	160
J H Holt	35	20**	-	-	-	-	55	45
MT Davies	35	5***	-	-	-	-	40	40
D A L Joyce	35	-	-	-	-	-	35	35
M J Le May	35	-	-	-	-	-	35	35
Total	1,339	25	851	106	352	265	2,938	1,731

Notes

† T P Holden was appointed to the Board on 11 December 2009. Accordingly, his emoluments are calculated for the period 11.12.09 – 31.12.09.

†† DR Forsyth left his office and his employment with the Company on 10 December 2009. He received a payment upon the termination of his employment, comprising one years' pay and benefits entitlement, pension and holiday pay entitlements and which also recognised his entitlement to performance related pay on satisfaction of the Company's applicable performance targets for 2009, which had substantially been achieved at that time. There are no further payments to be made.

* 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 Audit Committee (£7,500) and senior non-executive director (£2,500) and increased workload in 2009 (£10,000).

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

DIRECTORS' REMUNERATION REPORT CONTINUED

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, a former non-executive director of the Company, 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. Mr Casha and Miss Sykes 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. Mr T G Finn elected to take early retirement benefits on 8 February 2008 hence there is no remaining accrued entitlement for Mr Finn.

£000	M S Casha	H C Sykes
Total annual accrued pension entitlement at 31.12.08 (p.a)	141	46
Total annual accrued pension entitlement at 31.12.09 (p.a)	149	48
Increased in accrued pension during the year excluding inflation (p.a)	0	0
Increased in accrued pension during the year including inflation (p.a)	8	2
Transfer value of increase excluding inflation	0	0
Transfer value of accrued benefit at 31.12.08	1,920	302
Transfer value of accrued benefit at 31.12.09	3,127	589
Increase in transfer value over the year	1,207	287

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.

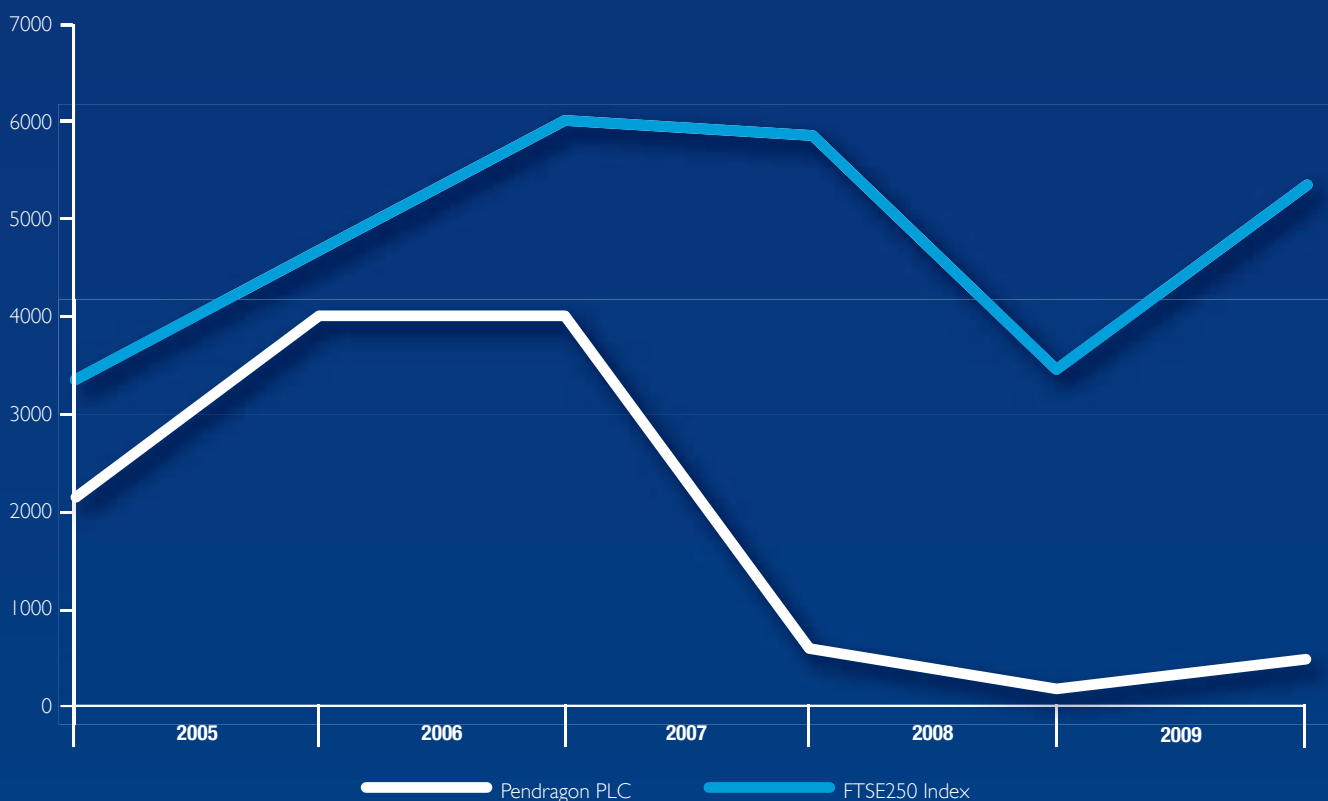
Mr T P Holden participates in the Pendragon Group Pension Scheme, a defined benefit contribution scheme to which the Company makes a contribution of 10% of his basic salary.

DIRECTORS' REMUNERATION REPORT CONTINUED

TOTAL SHAREHOLDER RETURN (NOT SUBJECT TO AUDIT)

The graph below shows the growth in total shareholder return on the Company's shares in comparison to the FTSE 250 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 2009. 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 2009 and reflects the theoretical growth in the value of a shareholding over that period, assuming any 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 FTSE250 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 250 Index has been selected as it represents the equity market in which the Company was a constituent member for the majority of the five year period.

Whilst reporting on remuneration issues, I am pleased to advise that below Board level, in 2009, 22% of the Company's costs of employing its team members related to team incentives, reflecting the performance culture

that exists throughout the Company. In addition as at 31 December 2009, 34.75% of the Company's team members were participants in one or more of its share based incentive plans.

Mike Davies
Chairman of the Remuneration Committee
12 March 2010

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 the 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).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the Directors are required to:

- select suitable accounting policies 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. They have 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 complies 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.

Directors' responsibility statement in respect of the annual financial report

We confirm that to the best of our knowledge:

- the Group and Parent company financial statements in the Annual Report, which have been prepared in accordance with applicable UK law and with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and Group as a whole; and
- the management report (which comprises the Directors' report and the Operational and Business Review) includes a fair review of the development and performance of the business and the position of the Company and Group as a whole, together with a description of the principal risks and uncertainties that they face.

Auditor

KPMG Audit Plc has indicated its willingness to continue as independent auditor and in accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by order of the Board

Tim Holden
Finance Director
12 March 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENDRAGON PLC

We have audited the financial statements of Pendragon PLC for the year ended 31 December 2009 set out on pages 40 to 109. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;

- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on page 26 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' Remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 26, in relation to going concern; and
- the part of the Corporate Governance Statement on page 23 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

G WATTS Senior Statutory Auditor

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants, One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH

12 March 2010

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2009

	Notes	Underlying £m	Non- Underlying £m	2009 £m	Underlying £m	restated* Non- Underlying £m	restated* 2008 £m
Revenue	1	3,172.7	19.0	3,191.7	4,025.5	136.9	4,162.4
Cost of sales		(2,683.5)	(16.1)	(2,699.6)	(3,495.8)	(123.4)	(3,619.2)
Gross profit		489.2	2.9	492.1	529.7	13.5	543.2
Operating expenses	3	(435.8)	(0.7)	(436.5)	(503.9)	(170.2)	(674.1)
Operating profit / (loss) before other income		53.4	2.2	55.6	25.8	(156.7)	(130.9)
Other income - gains / (losses) on the sale of businesses and property	3	-	1.1	1.1	-	(5.2)	(5.2)
Operating profit / (loss)		53.4	3.3	56.7	25.8	(161.9)	(136.1)
Finance expense	6	(45.0)	(27.7)	(72.7)	(64.3)	(23.3)	(87.6)
Finance income	7	1.7	15.6	17.3	2.7	31.0	33.7
Net finance costs		(43.3)	(12.1)	(55.4)	(61.6)	7.7	(53.9)
Share of loss before tax from joint venture	12	-	-	-	2.2	(6.2)	(4.0)
Share of income tax expense from joint venture	12	-	-	-	-	-	-
Share of post tax profit from joint venture		-	-	-	2.2	(6.2)	(4.0)
Profit / (loss) before taxation		10.1	(8.8)	1.3	(33.6)	(160.4)	(194.0)
Income tax (expense) / credit	8	(2.9)	2.4	(0.5)	11.5	27.2	38.7
Profit / (loss) for the year		7.2	(6.4)	0.8	(22.1)	(133.2)	(155.3)
Earnings per share	9						
Basic				0.1p			(24.4)p
Diluted				0.1p			(24.4)p

* see note 1(c)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £m	restated * 2008 £m
Profit / (loss) for the year		0.8	(155.3)
Other comprehensive income:			
Foreign currency translation differences of foreign operations		1.1	(1.3)
Defined benefit plan actuarial gains and losses	27	(28.2)	(71.7)
Income tax relating to defined benefit plan actuarial gains and losses	8	7.9	20.1
Adjustment in respect of minimum funding requirement on defined benefit plans	27	2.9	42.1
Income tax relating to adjustment in respect of minimum funding requirement on defined benefit plans	8	(0.8)	(11.8)
Other comprehensive income for the year, net of tax		(17.1)	(22.6)
Total comprehensive income for the year		(16.3)	(177.9)

* see note 1(c)

STATEMENT OF CHANGES IN EQUITY

	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 2008	32.8	56.8	2.5	12.6	(0.4)	202.9	307.2
Total comprehensive income for 2008							
Loss for the year as previously reported	-	-	-	-	-	(160.1)	(160.1)
Effect of prior year adjustment (note 1(c))	-	-	-	-	-	4.8	4.8
Restated loss for the year	-	-	-	-	-	(155.3)	(155.3)
Other comprehensive income for the year, net of tax	-	-	-	-	(1.3)	(21.3)	(22.6)
Total comprehensive income for the year	-	-	-	-	(1.3)	(176.6)	(177.9)
Dividends	-	-	-	-	-	(15.9)	(15.9)
Share based payments	-	-	-	-	-	0.2	0.2
Disposal of own shares in share trusts	-	-	-	-	-	0.1	0.1
Balance at 31 December 2008	32.8	56.8	2.5	12.6	(1.7)	10.7	113.7
Balance at 1 January 2009	32.8	56.8	2.5	12.6	(1.7)	10.7	113.7
Total comprehensive income for 2009							
Profit for the year	-	-	-	-	-	0.8	0.8
Other comprehensive income for the year, net of tax	-	-	-	-	1.1	(18.2)	(17.1)
Total comprehensive income for the year	-	-	-	-	1.1	(17.4)	(16.3)
Issue of ordinary shares (note 20)	0.3	-	-	-	-	(0.3)	-
Share based payments	-	-	-	-	-	8.5	8.5
Balance at 31 December 2009	33.1	56.8	2.5	12.6	(0.6)	1.5	105.9

The loss included in retained earnings for 2008 of £176.6m represents a loss attributable to owners of the parent of £155.3m and actuarial losses and minimum funding adjustments on defined benefit pension plans of £21.3m (£29.6m less tax £8.3m).

The loss included in retained earnings for 2009 of £17.4m represents a profit attributable to owners of the parent of £0.8m and actuarial losses and minimum funding adjustments on defined benefit pension plans of £18.2m (£25.3m less tax £7.1m).

CONSOLIDATED BALANCE SHEET at 31 December 2009

	Notes	2009 £m	restated * 2008 £m
Non-current assets			
Property, plant and equipment	11	307.8	336.3
Goodwill	10	371.4	372.2
Other intangible assets	10	3.1	2.4
Derivative financial instruments	17	23.3	38.5
Deferred tax assets	8	3.5	-
Investment in joint venture	12	-	-
Total non-current assets		709.1	749.4
Current assets			
Inventories	13	445.2	655.8
Trade and other receivables	14	107.4	133.6
Cash and cash equivalents	24	86.8	154.6
Non-current assets classified as held for sale	30	26.6	37.3
Total current assets		666.0	981.3
Total assets		1,375.1	1,730.7
Current liabilities			
Interest bearing loans and borrowings	16	(66.9)	(82.2)
Trade and other payables	15	(691.6)	(915.9)
Current tax payable		(24.8)	(19.8)
Provisions	19	(17.8)	(33.4)
Total current liabilities		(801.1)	(1,051.3)
Non-current liabilities			
Interest bearing loans and borrowings	16	(358.6)	(468.2)
Deferred income	29	(19.8)	(19.7)
Deferred tax liabilities	8	-	(5.8)
Retirement benefit obligations	27	(81.8)	(65.4)
Provisions	19	(7.9)	(6.6)
Total non-current liabilities		(468.1)	(565.7)
Total liabilities		(1,269.2)	(1,617.0)
Net assets		105.9	113.7
Capital and reserves			
Called up share capital	20	33.1	32.8
Share premium account	20	56.8	56.8
Capital redemption reserve	20	2.5	2.5
Other reserves	20	12.6	12.6
Translation reserve	20	(0.6)	(1.7)
Retained earnings	20	1.5	10.7
Total equity attributable to equity shareholders of the Company		105.9	113.7

* see note 1(c)

Approved by the Board of directors on 12 March 2010 and signed on its behalf by :

T G Finn
Chief Executive

T P Holden
Finance Director

CONSOLIDATED CASH FLOW STATEMENT

Year Ended 31 December 2009

	Notes	2009 £m	restated * 2008 £m
Cash flows from operating activities			
Profit / (loss) for the year		0.8	(155.3)
Adjustment for loss from joint venture		-	4.0
Adjustment for taxation		0.5	(38.7)
Adjustment for net financing expense		55.4	53.9
		56.7	(136.1)
Depreciation and amortisation		47.8	56.3
Share based payments		0.5	0.2
(Profit) / loss on sale of businesses and property		(1.1)	5.2
Impairment of property, plant and equipment		0.8	15.2
Impairment of assets held for sale		1.4	18.3
Reversal of impairment of assets held for sale		(1.0)	-
Release of accruals no longer required		-	(6.4)
Goodwill impairment		0.8	58.1
Changes in inventories	13	149.1	77.0
Changes in trade and other receivables		28.0	68.1
Changes in trade and other payables		(162.7)	(110.6)
Changes in retirement benefit obligations		(12.7)	(19.0)
Changes in provisions		(14.3)	27.3
Cash generated from operations		93.3	53.6
Taxation refunds received		2.3	15.0
Interest received		0.9	11.0
Interest paid		(47.3)	(75.1)
Net cash from operating activities		49.2	4.5
Cash flows from investing activities			
Proceeds from sale of businesses	23	0.6	7.7
Purchase of property, plant, equipment and intangible assets	10, 11	(103.8)	(150.1)
Proceeds from sale of property, plant and equipment	10, 11	90.3	130.6
Receipts from sales of investments		-	0.1
Net cash used in investing activities		(12.9)	(11.7)
Cash flows from financing activities			
Payment of capital element of finance lease rentals		(3.1)	(4.1)
Repayment of bank loans		(88.8)	(44.0)
Proceeds from issue of loans		-	169.4
Payment of transaction costs related to loans and borrowings		(8.1)	-
Dividends paid to shareholders	21	-	(15.9)
Net cash (outflow) / inflow from financing activities		(100.0)	105.4
Effects of exchange rate changes on cash held		(4.1)	3.8
Net (decrease) / increase in cash and cash equivalents		(67.8)	102.0
Cash and cash equivalents at 1 January		154.6	52.6
Cash and cash equivalents at 31 December	24	86.8	154.6

* see note 1(c)

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 2009 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 100 to 109.

(b) Basis of preparation The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m. 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 financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

Further information in relation to the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Operational and Business Review on pages 2 to 15.

The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described in the Operational and Business Review and Note 17 to the financial statements, which also includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit, market and liquidity risk. Further details of the Group's cash balances and borrowings are included in Notes 16, 17, 18 and 24 of the financial statements.

During the year the Group has renewed its borrowing facilities, the majority of which now expire in 2012. Current forecasts and projections taking account of potential changes in market circumstances show that the Group should be able to operate within the level of the current facilities.

The directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

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 31.

(c) Prior year adjustments In preparing the accounts for the year ended 31 December 2009 and as a result of ongoing discussions with the Financial Reporting Review Panel, the directors have reconsidered and adjusted the accounting for certain matters in the prior period. These adjustments are non-cash and do not impact underlying profit in the prior year, current year or future years.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. cont Accounting policies (continued)

At 31 December 2008, the Group accrued £6.6m of professional fees, which comprised the lender's own professional fees that the Group had by that date agreed to reimburse and fees for professional services provided directly to the Group in relation to the refinancing. Although the professional services were performed in 2009, the directors took the view that these costs were unavoidable at 31 December 2008 and accrued for them accordingly at that date. However, having examined the accounting in more detail, the directors have concluded that these costs should not have been accrued in last year's accounts because the service had not been provided at that date. Instead they have now been expensed in the year ended 31 December 2009. Consequential adjustments have also been made in respect of the tax effect of these amounts. The amounts impacted in the financial statements are summarised below:

	2008 £m
Consolidated income statement:	
Decrease in finance expense and net finance costs	6.6
Decrease in loss before tax	6.6
Decrease in income tax credit	(1.8)
Decrease in loss for the year	4.8
Increase in basic earnings per share	0.8p
Increase in diluted earnings per share	0.8p
	2008 £m
Consolidated balance sheet:	
Decrease in accruals, current liabilities and total liabilities	6.6
Increase in deferred tax liability	(1.8)
Increase in net assets	4.8

There has been no effect on earnings per share in the current year as a result of this restatement. There has been no effect on other comprehensive income as a result of this restatement. Consequential adjustments have been made to the cash flow statement in order to reconcile the restated loss for the year to net cash from operating activities. In addition in 2008 accruals no longer required of £6.4m were released to profit and loss. The release of these accruals was offset against non-underlying impairment of assets held for sale to show a net impairment of £11.9m in the 2008 accounts. These amounts have now been disclosed separately in the comparative column resulting in the impairment of assets held for sale being £18.3m and a release of accruals of £6.4m credit. This adjustment has no effect on profit for the year ended 31 December 2008. In addition to the above, deferred tax balances in the 2008 balance sheet have been reclassified to disclose deferred tax balances as a net amount, being a liability of £5.8m having adjusted for the prior year adjustment above. Previously these amounts were shown as separate deferred tax assets of £25.1m and deferred tax liabilities of £29.1m.

The above adjustments have no effect on the balance sheet at 1 January 2008 or on the profit or loss for any earlier period. Accordingly no restated balance sheet at 1 January 2008 has been presented.

(d) 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. cont Accounting policies (continued)

(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.

(e) Accounting for business disposals The results of businesses disposed of during the year are included up to the effective date of disposal using the acquisition method of accounting.

(f) 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 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', the Group is 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. These assets are transferred into inventory at their carrying amount when they cease to be rented and they become available for sale as part of the Groups ordinary course of business. Revenue also comprises commissions receivable for arranging vehicle finance.

Profit in respect of warranty policies administered by the Group is recognised over the period of the policy and provision is made for the estimated cost of fulfilling unexpired warranties.

(g) 'Non-underlying' items 'Non-underlying' items, are those items that are unusual because of their size, nature or incidence. The directors consider that these items should be disclosed separately to enable a full understanding of the Group's results. The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual was previously included within underlying profit but due to the volatility of this amount it is now shown as a non-underlying item. The 2008 comparatives have been updated accordingly.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. cont Accounting policies (continued)

(h) 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 (CGU's), which are franchise groups and other business units. 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 and accumulated impairment losses.

(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.

(i) 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 IFRS 1, 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	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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. cont Accounting policies (continued)

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income' in the income statement.

(j) 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 cumulative 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.

A non-current asset that stops being classified as held for sale is remeasured at the lower of its carrying amount prior to the asset or disposal group being classified as held for sale, adjusted for any depreciation or amortisation that would have been recognised if the asset had not been classified as held for sale, or its recoverable amount at the date of the decision not to sell.

(k) Impairment The carrying amounts of the Group's assets, other than inventories (see accounting policy l) and deferred tax assets (see accounting policy q), 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.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other groups of assets ('the cash generating unit'). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash generating units. Management have determined that the cash generating units of the Group are the motor franchise groups and other business divisions.

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.

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.

The impact of the current year impairment review can be seen in note 10.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. cont Accounting policies (continued)

(l) 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 obsolescence on a time in stock based formula approach.

(iii) Incentives received from manufacturers in respect of target achievements are accounted for as a deduction from the cost of purchase of the vehicles or parts to which they relate.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(iii) VAT: A provision is made for potential VAT liabilities following assessments raised by HM Customs and Excise.

(q) 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. cont Accounting policies (continued)

(r) 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.

(s) 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 liability 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.

(t) 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 carrying amount of the hedged item is adjusted for any gain or loss attributable to 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. If the hedging instrument no longer meets the criteria for hedge accounting or is terminated then hedge accounting is discontinued prospectively.

(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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. cont Accounting policies (continued)

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 expires. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged and cancelled. See also policy (o) and (p) above.

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(u) 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. The effective interest basis is a method of calculating the amortised cost of a financial liability and of allocating interest payments over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

In the case of a debt renegotiation where the existing and new terms are substantially different the exchange shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the original financial liability and the fair value of the new financial liability is recognised in profit or loss. Any costs or fees incurred in the refinancing are recognised as part of the gain or loss on extinguishment. If an exchange is not accounted for as an extinguishment, any fees or costs incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(v) Finance income and expense Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in profit and loss. Interest income is recognised as it accrues in profit and loss, using the effective rate method.

Finance expense comprises interest expense on borrowings, unwinding of the discount on provisions and losses on hedging instruments recognised in profit and loss. All borrowing costs are recognised in profit and loss using the effective interest method.

(w) 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 separately for each plan. 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 in the statement of recognised income and expense 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. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

A defined benefit contribution plan is one under which the Group pays fixed contributions and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement when they are due.

Surpluses in schemes are recognised as assets only if they represent unconditional economic benefits available to the Group in the future. Provision is made for future unrecognisable surpluses that will arise as a result of regulatory funding requirements. Movements in unrecognised surpluses are included in the statement of recognised income and expense. If the fair value of the assets exceeds the present value of the defined benefit obligation then the surplus will only be recognised if the nature of the arrangements under the trust deed, and funding arrangements between the Trustee and the Company support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is a consecutive obligation for the Company to pay deficit funding, this is also recognised.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. cont Accounting policies (continued)

(x) 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 IFRS 2, no income statement expenses are recorded in respect of grants of share options made prior to 7 November 2002.

(y) 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. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. 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.

(z) 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.

(aa) 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.

(ab) 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 which are classified as own shares are debited / credited directly to equity. When own shares are sold or re-issued, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(ac) Adoption of new and revised standards and new standards and interpretations not yet adopted

In the current year, the Group has adopted the following new standards and interpretations:

IFRS 8 'Operating Segments' introduces the 'management approach' to segment reporting. This requires the disclosure of segmental information based on the internal reports regularly reviewed by the Chief Operating Decision Maker, which is deemed to be the Executive Committee, in order to assess each segment's performance and allocate resources to them. This standard amends the requirements for disclosure of segmental performance and will not have any effect on the Group's overall reported results. As a consequence of the adoption of IFRS 8 the Group now has eight segments, these being Stratstone, Evans Halshaw, Chatfields, California, Leasing, Quickco, Pinewood and Central.

IFRS 8 requires the Group to provide an explanation of the basis on which the segment information is prepared and a reconciliation to the amount recognised in the Group's consolidated financial statements.

Revised IAS 1 'Presentation of Financial Statements (2007)' introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. The new statement of comprehensive income may be presented as either a single statement of comprehensive income which combines the requirements of the existing income statement and statement of recognised income and expense, or in an income statement and a separate statement of comprehensive income. The Group has decided to present separate statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. cont Accounting policies (continued)

Amendment to IFRS 2 'Share-based Payment - Vesting Conditions and Cancellations' clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant date fair value and provides the accounting treatment for non-vesting conditions and cancellations. There was no effect to the Group of the amendment.

Amendments to IAS 32 'Financial Instruments : Presentation' and IAS 1 'Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation' requires puttable instruments ,and instruments that impose on the entity an obligation to deliver to another on a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments have had no impact on the consolidated financial statements.

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:

Revised IFRS 3 'Business Combinations (2008)' incorporates certain changes that amend the Group's current accounting policies in respect of business combinations, the main change being that transaction costs, other than share and debt issue costs, will be expensed as incurred. Revised IFRS 3 becomes mandatory for the Group's 2010 consolidated financial statements and will be applied prospectively.

Amendment to IAS 27 'Consolidated and Separate Financial Statements (2008)' addresses changes in ownership interests in subsidiaries by the Group. The amendments to IAS 27 becomes mandatory for the Group's 2010 consolidated financial statements and is not expected to have a significant 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. There will be no impact upon the financial statements.

Amendment to IAS 39 'Financial Instruments : Recognition and Measurement' permits reclassification of non-derivative financial assets out of the fair value through profit or loss category in particular circumstances. This amendment is not expected to have a significant impact on the consolidated financial statements.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation', IFRIC 17 'Distributions of Non Cash Assets to Owners' and IFRIC 18 'Transfers of Assets from Customers'. There will be no impact upon the financial statements from these interpretations.

Amendment to IAS 32 about 'Classification of Rights Issues' requires that if rights issues offered for a fixed amount of foreign currency rights are issued pro rata to existing shareholders they should be classified as equity regardless of the currency in which the exercise price is denominated. This amendment is not expected to have a significant impact on the consolidated financial statements.

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

Amendment to IFRS 2 'Group Cash Settled Share-based Payment Transactions', IFRS 9 'Financial Instruments', Amendment to IFRIC 14 'Prepayments of Minimum Funding Requirement', IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' and IAS 24 'Related Party Disclosures'. Management is currently assessing the impact of these standards and interpretations on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. Operating segments

The Group has eight reportable segments, as described below, which are the Group's strategic business units. The segments offer different ranges of products and services and are managed separately because they require their own specialisms in terms of market and product. For each of these segments, the Executive Committee which is deemed to be the Chief Operating Decision Maker (CODM), reviews internal management reports on at least a monthly basis. The review of these management reports enables the CODM to allocate resources to each segment and form the basis of strategic and operational decisions, such as acquisition strategy, closure program or working capital allocation. The following summary describes the operations in each of the Groups reportable 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.

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.

California. This segment comprises the Group's retail operation in California in the United States which comprises the sale of new and used motor cars, together with associated aftersales activities of service and parts sales.

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

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

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

Central. This segment represents the Groups head office function and includes all central activities including directors, finance, HR, central procurement and property management.

Information regarding the results of each reportable segment is presented below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Executive Committee. These internal reports are prepared in accordance with IFRS accounting policies consistent with these Group Financial Statements.

The tables of financial performance presented in the Operational and Business Review on pages 6 to 13 are based upon these segmental reports with the exception that the result of the Central segment is allocated across the other operational segments. A reconciliation of this allocation is presented within the tables below.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. cont Operating segments (continued) Year ended 31 December 2008

	Stratstone £m	Evans Halshaw £m	Chatfields £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	Total £m
New vehicle revenue	586.4	1,454.0	117.0	86.8	-	-	-	-	2,244.2
Used vehicle revenue	615.8	596.7	11.5	35.8	-	-	-	-	1,259.8
Aftersales revenue	155.5	220.5	46.0	26.3	-	-	-	-	448.3
Contract hire and support revenue	-	-	-	-	39.6	76.8	25.9	-	142.3
Total gross segment revenue	1,357.7	2,271.2	174.5	148.9	39.6	76.8	25.9	-	4,094.6
Inter-segment revenue	-	-	-	-	(23.1)	(28.8)	(17.2)	-	(69.1)
Revenue from non-underlying activities	1,357.7	2,271.2	174.5	148.9	16.5	48.0	8.7	-	4,025.5
Revenue from external customers	1,463.8	2,302.0	174.5	148.9	16.5	48.0	8.7	-	4,162.4
Operating profit before other income and non-underlying items	4.5	13.1	4.0	1.4	9.0	1.8	7.3	(15.3)	25.8
Other income and non-underlying items	(42.3)	(33.0)	(13.2)	(14.6)	(8.8)	-	-	(50.0)	(161.9)
Operating (loss) / profit	(37.8)	(19.9)	(9.2)	(13.2)	0.2	1.8	7.3	(65.3)	(136.1)
Finance expense	(6.1)	(4.1)	(1.2)	(2.6)	(4.7)	-	-	(68.9)	(87.6)
Finance income	-	-	-	-	-	0.2	0.5	33.0	33.7
Share of loss of joint venture	-	-	-	-	-	-	-	(4.0)	(4.0)
Segmental (loss) / profit before tax	(43.9)	(24.0)	(10.4)	(15.8)	(4.5)	2.0	7.8	(105.2)	(194.0)
Reconciliation to tables in Operational and Business review									
Operating profit as above	4.5	13.1	4.0	1.4	9.0	1.8	7.3	(15.3)	25.8
Allocation of central overheads	(7.0)	(7.0)	(0.4)	-	(0.3)	(0.3)	(0.3)	15.3	-
Result as presented in Operational and Business review tables	(2.5)	6.1	3.6	1.4	8.7	1.5	7.0	-	25.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. cont Operating segments (continued)) Year ended 31 December 2008

	Stratstone £m	Evans Halshaw £m	Chatfields £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	Total £m
Other items included in the income statement are as follows:									
Depreciation	(6.8)	(11.6)	(0.7)	(1.6)	(34.3)	-	(0.6)	-	(55.6)
Amortisation	(0.3)	(0.4)	-	-	-	-	-	-	(0.7)
Share based payments	(0.1)	(0.1)	-	-	-	-	-	-	(0.2)
Impairment of goodwill	(19.5)	(16.3)	(5.8)	(14.0)	(2.5)	-	-	-	(58.1)
Impairment of property, plant and equipment	(4.5)	(2.0)	-	-	(6.3)	-	-	(2.4)	(15.2)
Operating losses and closure costs incurred on closed businesses	(7.9)	(7.6)	-	(0.6)	-	-	-	(3.6)	(19.7)
Impairment of assets held for sale	-	-	-	-	-	-	-	(18.3)	(18.3)
Redundancy costs	-	-	-	-	-	-	-	(5.4)	(5.4)
Inventory write down	(10.4)	(7.1)	(7.4)	-	-	-	-	-	(24.9)
Professional fees	-	-	-	-	-	-	-	(1.5)	(1.5)
VAT assessment provision	-	-	-	-	-	-	-	(26.8)	(26.8)
Release of accruals no longer required	-	-	-	-	-	-	-	6.4	6.4
Exceptional VAT refund - net of costs	-	-	-	-	-	-	-	6.8	6.8
Other income - gains / (losses) on the sale of businesses and property	-	-	-	-	-	-	-	(5.2)	(5.2)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. cont Operating segments (continued) Year ended 31 December 2009

	Stratstone £m	Evans Halshaw £m	Chatfields £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	Total £m
New vehicle revenue	519.1	1,001.3	58.9	86.5	-	-	-	-	1,665.8
Used vehicle revenue	489.8	523.5	9.0	26.8	-	-	-	-	1,049.1
Aftersales revenue	140.2	185.0	39.7	26.4	-	-	-	-	391.3
Contract hire and support revenue	-	-	-	-	29.6	67.9	21.2	-	118.7
Total gross segment revenue	1,149.1	1,709.8	107.6	139.7	29.6	67.9	21.2	-	3,224.9
Inter-segment revenue	-	-	-	-	(12.8)	(25.3)	(14.1)	-	(52.2)
Revenue from non-underlying activities	1,149.1	1,709.8	107.6	139.7	16.8	42.6	7.1	-	3,172.7
Revenue from external customers	11.2	7.8	-	-	-	-	-	-	19.0
Revenue from external customers	1,160.3	1,717.6	107.6	139.7	16.8	42.6	7.1	-	3,191.7
Operating profit before other income and non-underlying items	24.2	19.9	1.6	1.3	8.3	2.0	8.7	(12.6)	53.4
Other income and non-underlying items	(4.1)	(1.6)	-	-	-	-	-	9.0	3.3
Operating profit	20.1	18.3	1.6	1.3	8.3	2.0	8.7	(3.6)	56.7
Finance expense	(1.8)	(2.6)	(0.7)	(1.7)	-	-	-	(65.9)	(72.7)
Finance income	-	-	-	-	0.2	0.1	0.1	16.9	17.3
Share of profit of joint venture	-	-	-	-	-	-	-	-	-
Segmental profit / (loss) before tax	18.3	15.7	0.9	(0.4)	8.5	2.1	8.8	(52.6)	1.3
Reconciliation to tables in Operational and Business review									
Operating profit as above	24.2	19.9	1.6	1.3	8.3	2.0	8.7	(12.6)	53.4
Allocation of central overheads	(5.6)	(5.7)	(0.4)	-	(0.3)	(0.3)	(0.3)	12.6	-
Result as presented in Operational and Business review tables	18.6	14.2	1.2	1.3	8.0	1.7	8.4	-	53.4

The results presented in the Operational and Business review are stated after the allocation of the costs incurred in the central segment. This approach is not used as an internal measure of performance evaluation but is adopted to give an indication as to the overall contribution each operating segment makes to the Group and offers a consistent approach to that adopted in previous years to shareholders and the market as a whole.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. cont Operating segments (continued)

	Stratstone £m	Evans Halshaw £m	Chatfields £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	Total £m
Other items included in the income statement are as follows:									
Depreciation	(4.4)	(7.3)	(0.6)	(1.7)	(33.0)	(0.1)	-	-	(47.1)
Amortisation	(0.3)	(0.4)	-	-	-	-	-	-	(0.7)
Share based payments	(0.2)	(0.3)	-	-	-	-	-	-	(0.5)
Impairment of goodwill	(0.8)	-	-	-	-	-	-	-	(0.8)
Impairment of property, plant and equipment	-	-	-	-	-	-	-	(0.8)	(0.8)
Operating losses and closure costs incurred on closed businesses	(3.3)	(1.6)	-	-	-	-	-	(3.7)	(8.6)
Impairment of assets held for sale	-	-	-	-	-	-	-	(1.4)	(1.4)
Reversal of impairment and depreciation adjustment on assets de-classified as held for sale (see note 30)	-	-	-	-	-	-	-	1.0	1.0
Redundancy costs	-	-	-	-	-	-	-	(2.1)	(2.1)
Professional fees	-	-	-	-	-	-	-	(1.3)	(1.3)
VAT assessment provision	-	-	-	-	-	-	-	16.2	16.2
Other income - gains / (losses) on the sale of businesses and property	-	-	-	-	-	-	-	1.1	1.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. cont Operating segments (continued)

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Stratstone £m	Evans Halshaw £m	Chatfields £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	Total £m
Gross assets per segment	487.8	663.5	70.6	94.3	52.2	18.1	20.6	130.5	1,537.6
Derivative financial instruments									38.5
Cash and cash equivalents									154.6
Total gross assets									1,730.7
Gross liabilities per segment	(277.7)	(347.0)	(49.5)	(75.4)	(14.2)	(7.3)	(21.9)	(248.0)	(1,041.0)
Interest bearing loans and borrowings									(550.4)
Current taxation									(19.8)
Deferred taxation									(5.8)
Total gross liabilities									(1,617.0)
Net assets									113.7
Capital expenditure	17.5	34.3	1.0	8.9	90.4	0.1	0.9	-	153.1

The segment assets and liabilities at 31 December 2009 and capital expenditure for the year then ended are as follows:

	Stratstone £m	Evans Halshaw £m	Chatfields £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	Total £m
Gross assets per segment	363.4	653.6	40.7	53.2	39.1	13.9	9.2	88.4	1,261.5
Derivative financial instruments									23.3
Deferred taxation									3.5
Cash and cash equivalents									86.8
Total gross assets									1,375.1
Gross liabilities per segment	(168.6)	(345.0)	(21.5)	(33.4)	(10.5)	(7.9)	(5.2)	(226.8)	(818.9)
Interest bearing loans and borrowings									(425.5)
Current taxation									(24.8)
Total gross liabilities									(1,269.2)
Net assets									105.9
Capital expenditure	18.6	33.4	0.4	1.3	49.3	0.1	-	-	103.1

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. cont Operating segments (continued)

Geographical information.

All segments, with the exception of California in the United States originate in the United Kingdom.

3. Net operating expenses and non-underlying items

	2009 £m	restated* 2008 £m
Net operating expenses :		
Distribution costs	(240.4)	(295.5)
Administrative expenses	(197.6)	(386.3)
Exceptional VAT refund	-	6.8
Rents received	1.5	0.9
	(436.5)	(674.1)

Income and expenses incurred or received during the year, which due to their size, nature or incidence do not form part of underlying profit are drawn out for separate disclosure as non-underlying items.

	2009 £m	restated* 2008 £m
Within turnover		
Turnover from closed businesses	19.0	136.9
Within cost of sales		
Cost of sales of closed businesses	(16.1)	(123.4)
Within operating expenses		
Operating expenses and closure costs incurred on closed businesses	(11.5)	(33.2)
Goodwill impairment	(0.8)	(58.1)
Impairment of property, plant and equipment	(0.8)	(15.2)
Impairment of assets held for sale	(1.4)	(18.3)
Reversal of impairment and depreciation adjustment on assets de-classified as held for sale (see note 30)	1.0	-
Redundancy costs	(2.1)	(5.4)
Inventory write down	-	(24.9)
Professional fees	(1.3)	(1.5)
Release of accruals no longer required	-	6.4
VAT assessment provision	16.2	(26.8)
Exceptional VAT refund - net of costs	-	6.8
	(0.7)	(170.2)
Within other income - gains / (losses) on the sale of businesses and property:		
Gains on the sale of businesses	0.1	0.9
Gains / (losses) on the sale of property	1.0	(6.1)
	1.1	(5.2)
Within finance expense:		
Interest on pension scheme obligations	(19.4)	(18.7)
Net loss on refinancing	(8.3)	(4.6)
	(27.7)	(23.3)

*see note 1(c) and paragraph below in respect of pension obligations.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. cont Net operating expenses and non-underlying items (continued)

	2009 £m	restated* 2008 £m
Within finance income:		
Interest on pension scheme assets	15.6	22.7
Interest received on VAT refund	-	8.3
	15.6	31.0
Within share of (loss) / profit before tax from joint venture:		
Impairment of investment in joint venture	-	(6.2)

*see note 1 (c) and paragraph below in respect of pension obligations.

The following amounts have been presented as non-underlying items in these financial statements:

Goodwill impaired during the year was £0.8m (2008 : £58.1m) (see note 11).

Group tangible fixed assets and assets held for sale have been reviewed for possible impairments in the light of economic conditions. As a result of this review there was an impairment charge of £0.8m recognised against tangible fixed assets (2008 : £15.2m) and £1.4m recognised against assets held for sale (2008 : £18.3m). In addition, a release of £1.0m was made on de-classification of assets held for sale.

Losses incurred on the closure of business amounted to £8.6m (2008: £19.7m). These costs include wind down expenses, recognised from the date of the announcement to close, losses on assets, redundancy and vacant property occupancy costs.

The Group has also undertaken a programme of redundancies in its core businesses in light of market conditions as a result of the current economic situation, resulting in non-underlying payments of £1.7m (2008: £5.4m). In addition a payment in respect of compensation for loss of office of £0.4m was made to D R Forsyth on the termination of his employment as a director of the Company.

During the previous year a VAT refund of £6.8m net of costs in respect of VAT overpaid on demonstrator vehicles over the period 1973 to 1996 was received. Associated interest received in the previous year of £8.3m is disclosed within finance income.

During the refinancing process the Group investigated the possibility of an equity raising. This process was abandoned during 2009 prior to the successful refinancing of the Group and as a consequence £1.3m of professional fees were written off in 2009 as a non-underlying item.

During 2008 as previously announced we investigated the potential disposal of Pinewood. This disposal process did not proceed to completion and the professional costs of £1.5m of the exercise were written off as a non-underlying item.

At 31 December 2008 the Group had made provision of £26.8m in respect of assessments raised by HM Revenue and Customs over the VAT treatment of sales of vehicles to certain disabled customers and the VAT treatment of partial exemption within our finance and insurance operations. The latter issue has been resolved during the year with HM Revenue and Customs conceding the case. As a consequence of this the provision in respect of this matter of £16.2m has been released.

The Group is in continuing discussions with HM Revenue and Customs over the VAT treatment of sales of vehicles to certain disabled customers. We have received VAT assessments in respect of this issue and received advice that it is possible that the Group will not be successful defending the claim though we will continue to defend our position. The total provision has therefore decreased to £10.6m at 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. cont Net operating expenses and non-underlying items (continued)

During 2008, particularly the second half of the year, values of used cars fell dramatically resulting in certain stock suffering an exceptional loss in value compared to its realisable value. In addition, given the dramatic fall in demand for certain types of new cars which resulted in significantly higher stock levels, the cost of this stock was higher than its realisable value. This fall in value was unprecedented and not expected to recur. A stock provision of £24.9m was recognised in respect of these issues and presented as a non-underlying item. These conditions also had a knock on impact in our Contract Hire business where the repurchase commitments in respect of vehicles at the end of the contract life had resulted in the need for an impairment provision of £6.3m in 2008 in respect of the vehicles which are classified in fixed assets. The movement in the stock provision has largely been in respect of utilisation against losses incurred in the year and due to the absence of any exceptional change in used car values all other movements are not material and have therefore been recognised within the underlying result.

During 2008 the Group resolved a number of matters relating to the restructuring of certain businesses and as a result of this a number of accruals were released amounting to £6.4m. Due to the one-off nature of these amounts and their impact on profit or loss for the period these are classified as non-underlying.

The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual was previously included within underlying profit but due to the volatility of this amount it is now shown as a non-underlying item. The 2008 comparatives have been updated accordingly. A net cost of £3.8m has been incurred during the year (2008 : net credit £4.0m).

Other income, being the profit on disposal of businesses and property, comprises £0.1m profit on the disposal of motor vehicle dealerships (2008 : £0.9m) and a £1.0m profit on sale of properties (2008 : £6.1m loss).

Upon the successful completion of the refinancing on 30 April 2009 a net loss of £8.3m was recorded. This included refinancing related costs of £22.7m (2008 : £1.7m) and a fair value gain on the inception of the loan of £14.4m. In addition, during the previous year the Group incurred a fee of £2.9m in respect of deferral of covenant measurements during the period of negotiations for the bank refinancing.

The following items have been charged / (credited) to the income statement as operating expenses during the year:

	2009 £m	restated* 2008 £m
Depreciation of property, plant and equipment - owned	45.8	53.9
- held under finance leases	1.3	1.7
Impairment of property, plant and equipment	0.8	15.2
Impairment of assets held for sale	1.4	18.3
Reversal of impairment and depreciation adjustment on assets de-classified as held for sale (see note 30)	(1.0)	-
Amortisation of internally generated intangible assets	0.5	0.3
Amortisation of other intangible assets	0.2	0.4
Impairment of goodwill	0.8	58.1
Cost of inventories recognised as an expense	2,660.2	3,553.2
Research and development costs	0.8	0.7
Operating lease rentals payable		
- hire of plant and machinery	2.3	2.4
- property rentals	42.4	43.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. cont Net operating expenses and non-underlying items (continued)

	2009 £000	restated 2008 £000
Auditors remuneration:		
Audit of these financial statements	272.8	287.2
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	281.2	298.8
Other services supplied pursuant to such legislation	45.0	30.0
Other services relating to taxation	330.9	289.6
Services relating to corporate finance transactions entered into (including debt refinancing)	1,700.8	1,562.9
Pension valuation and actuarial services	61.0	-
	2,691.7	2,468.5

4. Employees

The average number of people employed by the Group in the following areas was:	2009 Number	2008 Number
Sales	3,052	3,760
Aftersales	4,659	5,742
Administration	2,578	3,177
	10,289	12,679
Costs incurred in respect of these employees were :	2009 £m	2008 £m
Wages and salaries	255.7	291.9
Social security costs	24.1	28.0
Contributions to defined contribution plans	3.7	4.4
Increase / (decrease) in liability for defined benefit plans	3.8	(4.0)
Share based payments	0.5	0.2
	287.8	320.5

5. Directors

Total emoluments of directors (including pension contributions) amounted to £2.9m (2008 : £1.7m).

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 28 to 37.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Finance expense

	2009 £m	restated* 2008 £m
Recognised in profit and loss		
Interest payable on bank borrowings and loan notes	31.7	30.9
Net loss on refinancing (non-underlying - see note 3)	8.3	4.6
Vehicle stocking plan interest	10.9	28.5
Interest payable on finance leases	0.4	0.5
Interest on pension scheme obligations (non-underlying - see note 3)	19.4	18.7
Less : interest capitalised	-	(0.1)
Total interest expense	70.7	83.1
Net fair value expense in respect of hedging relationships (see note 17)	-	0.1
Unwinding of discounts in contract hire residual values	2.0	4.4
Total finance expense	72.7	87.6
Interest expense in respect of financial liabilities held at amortised cost	70.7	83.1
Net fair value expense in respect of hedging relationships (see note 17)	-	0.1
Unwinding of discounts in contract hire residual values	2.0	4.4
Total finance expense	72.7	87.6

*see note 1(c)

Interest of £nil has been capitalised during the year on assets under construction (2008 : £0.1m at an average rate of 5.49%).

7. Finance income

	2009 £m	2008 £m
Recognised in profit and loss		
Net fair value gain in respect of hedging relationships (see note 17)	0.8	-
Interest receivable on bank deposits	0.9	2.7
Interest on pension scheme assets (non underlying - see note 3)	15.6	22.7
Interest income on VAT refund (non underlying - see note 3)	-	8.3
Total finance income	17.3	33.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. Taxation

	2009 £m	restated* 2008 £m
UK corporation tax :		
Current tax on profit / (loss) for the year	-	(5.1)
Adjustments in respect of prior periods	2.9	(3.7)
	2.9	(8.8)
Overseas taxation:		
Current tax on income for the year	0.4	-
Adjustments in respect of prior periods	(0.6)	-
	(0.2)	-
Total current tax charge / (credit)	2.7	(8.8)
Deferred tax expense / (credit) :		
Origination and reversal of temporary differences	(3.5)	(10.2)
Benefit of tax losses recognised	1.3	(19.7)
	0.5	(38.7)
The total aggregate tax charges / (credits) recognised in the income statement are analysed as:	2009 £m	2008 £m
Current tax	2.7	(8.8)
Deferred tax	(2.2)	(29.9)
Total income tax expense / (credit) in the income statement	0.5	(38.7)

*see note 1(c)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. cont Taxation (continued)

Factors affecting the tax charge / (credit) for the period:

The tax assessed is different from the standard rate of corporation tax in the UK (28% (2008 : 28.5%))

	2009 £m	2008 £m
The differences are explained below:		
Profit / (loss) before taxation	1.3	(194.0)
Tax on profit / (loss) at UK rate of 28% (2008 : 28.5%)	0.4	(55.4)
Differences:		
Tax effect of share of results from joint venture	-	1.1
Accounting depreciation for which no tax relief is due	0.5	0.6
Difference between accounts profits and taxable profits on capital asset disposals	(0.2)	0.3
Other disallowables	1.0	1.3
Unrecognised losses	-	0.2
Tax rate differential on overseas income	-	(0.2)
Movement in rolled over and held over chargeable gains	(0.2)	(0.1)
Asset impairment charge	0.5	16.6
Impact of Finance Act 2007 changes	-	0.6
Adjustments to tax charge in respect of previous periods	(1.5)	(3.7)
Total tax charge / (credit)	0.5	(38.7)
The impact of the Finance Act 2007 changes are:		
Reduction in the tax rate from April 2008 onwards from 30% to 28% (see tax rate below)	-	(0.6)

Deferred tax credit recognised directly in equity

	2009 £m	2008 £m
Actuarial gains and losses	7.1	8.3

Tax rate

The standard rate of corporation tax changed from 30% to 28% with effect from 1 April 2008. Accordingly, the average rate UK corporation tax rate applicable for the prior accounting period was 28.5%. However, the deferred tax credit in respect of the Group's losses for the prior accounting period had been calculated using the future applicable rate of 28%.

Factors affecting the future tax charge

The tax credit/charge is increased/decreased by the release of prior year provisions relating to UK tax returns and certain capital allowances that are treated as permanent differences. The tax credit/charge is decreased/increased by non-deductible expenses including the impairment of goodwill and non-qualifying depreciation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. cont Taxation (continued)

Unrecognised deferred tax assets

There are unutilised tax losses within the group of £18.6m (2008 : £18.6m) 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:

	2009 £m	restated* 2008 £m
Deferred tax assets	35.0	25.1
Deferred tax liabilities	(31.5)	(30.9)
	3.5	(5.8)

A deferred tax asset has been recognised in respect of tax losses carried forward at 31 December 2009 as it is expected that the Group will generate sufficient taxable profits in the foreseeable future for these tax losses to be utilised against.

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

	At 1 January 2008 £m	Charged / (credited) to consolidated income statement £m	Credited to equity £m	restated * At 31 December 2008 £m
Property, plant and equipment	49.8	(16.8)	-	33.0
Rolled over and held over gains	12.8	(1.0)	-	11.8
Retirement benefit obligations	(17.0)	6.8	(8.3)	(18.5)
Financial instruments	(0.2)	-	-	(0.2)
Provisions	(1.4)	0.8	-	(0.6)
Losses	-	(19.7)	-	(19.7)
Tax liabilities	44.0	(29.9)	(8.3)	5.8

	At 1 January 2009 £m	Charged / (credited) to consolidated income statement £m	Credited to equity £m	At 31 December 2009 £m
Property, plant and equipment	33.0	(4.2)	-	28.8
Rolled over and held over gains	11.8	0.2	-	12.0
Retirement benefit obligations	(18.5)	2.4	(7.1)	(23.2)
Financial instruments	(0.2)	0.2	-	-
Provisions	(0.6)	(2.1)	-	(2.7)
Losses	(19.7)	1.3	-	(18.4)
Tax liabilities / (assets)	5.8	(2.2)	(7.1)	(3.5)

*see note 1(c)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Earnings per share

	2009 Earnings per share pence	2009 Earnings Total £m	restated* 2008 Earnings per share pence	restated* 2008 Earnings Total £m
Basic earnings per share	0.1	0.8	(24.4)	(155.3)
Adjusting items:				
Goodwill impairment	0.1	0.8	9.1	58.1
Impairment of investment in joint venture	-	-	1.0	6.2
Impairment of property, plant and equipment	0.1	0.8	2.4	15.2
Impairment of assets held for sale	0.2	1.4	2.9	18.3
Reversal of impairment and depreciation adjustment on assets de-classified as held for sale	(0.2)	(1.0)	-	-
Losses incurred on closed businesses	1.4	8.6	3.1	19.7
Redundancy costs	0.3	2.1	0.8	5.4
Exceptional VAT refund	-	-	(1.1)	(6.8)
(Profit) / loss on business and property disposals	(0.2)	(1.1)	0.8	5.2
Net loss on refinancing	1.4	8.3	0.8	4.6
Professional fees	0.2	1.3	0.2	1.5
Net interest on pension schemes	0.6	3.8	(0.6)	(4.0)
VAT assessment provision	(2.5)	(16.2)	4.2	26.8
Inventory write down	-	-	3.9	24.9
Write back of surplus acquisition accruals	-	-	(1.0)	(6.4)
Interest received on VAT refund	-	-	(1.3)	(8.3)
Tax effect of adjusting items	(0.4)	(2.4)	(4.3)	(27.2)
Underlying earnings per share	1.1	7.2	(3.5)	(22.1)
Diluted earnings per share	0.1	0.8	(24.4)	(155.3)
Diluted earnings per share - adjusted	1.1	7.2	(3.5)	(22.1)

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

	2009 £m	2008 £m
Weighted average number of ordinary shares in issue	639.4	636.1
Weighted average number of dilutive shares under option	36.8	-
Weighted average number of shares in issue taking account of applicable outstanding share options	676.2	636.1

*see note 1(c)

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

There are 20.4m shares under option (2008 : 3.1m) that are non-dilutive in accordance with IAS 33 'Earnings Per Share'.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. Intangible assets

	Goodwill £m	Development costs £m	Other intangibles £m	Total £m
Cost				
At 1 January 2008	437.9	1.1	13.1	452.1
Additions	-	0.8	0.3	1.1
Exchange adjustments	4.8	-	-	4.8
Disposal of businesses	(0.6)	-	-	(0.6)
Other disposals	(0.3)	-	(0.4)	(0.7)
At 31 December 2008	441.8	1.9	13.0	456.7
At 1 January 2009	441.8	1.9	13.0	456.7
Additions	-	1.0	0.4	1.4
Disposals	-	-	(0.1)	(0.1)
At 31 December 2009	441.8	2.9	13.3	458.0
Amortisation				
At 1 January 2008	10.7	0.1	12.0	22.8
Amortised during the year	-	0.3	0.4	0.7
Exchange adjustments	0.8	-	-	0.8
Impairment	58.1	-	-	58.1
Disposals	-	-	(0.3)	(0.3)
At 31 December 2008	69.6	0.4	12.1	82.1
At 1 January 2009	69.6	0.4	12.1	82.1
Amortised during the year	-	0.5	0.2	0.7
Impairment	0.8	-	-	0.8
Disposals	-	-	(0.1)	(0.1)
At 31 December 2009	70.4	0.9	12.2	83.5
Carrying amounts				
At 1 January 2008	427.2	1.0	1.1	429.3
At 31 December 2008	372.2	1.5	0.9	374.6
At 1 January 2009	372.2	1.5	0.9	374.6
At 31 December 2009	371.4	2.0	1.1	374.5

The amortisation charge in respect of other intangibles is recognised within operating expenses in the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. cont Intangible assets (continued)

Development costs are amortised over a period of 5 years, these constitute expenditure on development of the Group's software products that is capitalised as incurred. Software is amortised over a period of 4 years.

Impairment losses of £0.8m of goodwill attaching to Cash Generating Units (CGUs) 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 (2008 : £58.1m).

Goodwill is allocated across multiple cash-generating units which are franchise groups and other business 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:

Future cash flows were projected into perpetuity based on actual operating results and the current business plan up to 2012 as approved by the directors, with regard to the long term strategy of the Group in terms of business representation. The business plan has been prepared based on detailed plans prepared by each CGU. The detailed plans were formulated based on vehicle manufacturer forecasts and other external sources of automotive industry forecasts, the experience of the impact of previous recessions and subsequent recovery in the automotive industry and consequent expectations for profit per unit performance. The cash flow projections included the benefit of cost saving actions already implemented.

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 beyond the business plan.

The discount rates are estimated based on the Group's cost of capital which is calculated after consideration of market information and risk adjusted for individual circumstances. With all units carrying a goodwill value operating in the UK and in the motor retail or related sector a single pre-tax discount rate of 13.8% has been applied (2008 : 13.3%). A key assumption made by the directors lies in the discount rate used, an increase in the pre-tax discount rate of 1% would result in no additional impairment. Whilst no growth in cash flows has been assumed a reduction in cash flows of 5% would also result in no additional impairment being required.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. cont Intangible assets (continued)

Movements of the principal CGUs are summarised in the table below:

Year ending 31 December 2008	At 1 January 2008 £m	Disposals £m	Impairments £m	Exchange differences £m	At 31 December 2008 £m
Cash generating unit					
BMW	33.4	(0.6)	(1.7)	-	31.1
Ford	72.0	-	(0.4)	-	71.6
Mercedes	51.5	-	-	-	51.5
Vauxhall	77.8	-	-	-	77.8
Others	192.5	(0.3)	(56.0)	4.0	140.2
	427.2	(0.9)	(58.1)	4.0	372.2

Year ending 31 December 2009	At 1 January 2009 £m	Disposals £m	Impairments £m	Exchange differences £m	At 31 December 2009 £m
Cash generating unit					
BMW	31.1	-	-	-	31.1
Ford	71.6	-	-	-	71.6
Mercedes	51.5	-	-	-	51.5
Vauxhall	77.8	-	-	-	77.8
Others	140.2	-	(0.8)	-	139.4
	372.2	-	(0.8)	-	371.4

Goodwill by segment	2009 £m	2008 £m
Stratstone	125.7	126.5
Evans Halshaw	210.7	210.7
Chatfields	12.0	12.0
Quickco	0.7	0.7
Pinewood	0.3	0.3
Contract Hire	22.0	22.0
	371.4	372.2

In 2008 goodwill impairments in respect of Land Rover and USA of £12.3m and £14.0m respectively were made. Whilst the reversal of an impairment loss is not recognised in subsequent periods, the cashflow projection of the Land Rover CGU in 2009 now indicates that, if permitted, it's impairment could have been reversed.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	Total £m
Cost				
At 1 January 2008	193.1	77.6	233.8	504.5
Additions	14.5	12.8	124.9	152.2
Exchange adjustments	7.0	1.6	0.3	8.9
Disposal of businesses	(2.6)	(2.0)	(3.1)	(7.7)
Other disposals	(8.0)	(17.4)	(154.7)	(180.1)
Classified as non-current assets held for sale	(7.9)	-	-	(7.9)
At 31 December 2008	196.1	72.6	201.2	469.9
At 1 January 2009	196.1	72.6	201.2	469.9
Additions	3.5	6.9	91.6	102.0
Exchange adjustments	(3.0)	(0.7)	(0.1)	(3.8)
Disposal of businesses	(0.4)	-	-	(0.4)
Other disposals	(2.0)	(7.6)	(123.6)	(133.2)
Classified as non-current assets held for sale	(1.8)	-	-	(1.8)
Reinstated from non-current assets held for sale	9.7	-	-	9.7
At 31 December 2009	202.1	71.2	169.1	442.4
Depreciation				
At 1 January 2008	9.4	40.0	70.0	119.4
Exchange adjustments	0.7	1.0	0.1	1.8
Charge for the year	3.6	11.1	40.9	55.6
Impairment	8.5	0.4	6.3	15.2
Disposal of businesses	(0.2)	(1.1)	(2.1)	(3.4)
Other disposals	(0.9)	(8.5)	(45.6)	(55.0)
At 31 December 2008	21.1	42.9	69.6	133.6
At 1 January 2009	21.1	42.9	69.6	133.6
Exchange adjustments	(0.3)	(0.4)	-	(0.7)
Charge for the year	3.7	7.9	35.5	47.1
Impairment	0.8	-	-	0.8
Disposals	(2.0)	(1.8)	(44.7)	(48.5)
Classified as non-current assets held for sale	(0.4)	-	-	(0.4)
Reinstated from non-current assets held for sale	2.7	-	-	2.7
At 31 December 2009	25.6	48.6	60.4	134.6
Carrying amounts				
At 1 January 2008	183.7	37.6	163.8	385.1
At 31 December 2008	175.0	29.7	131.6	336.3
At 1 January 2009	175.0	29.7	131.6	336.3
At 31 December 2009	176.5	22.6	108.7	307.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. cont 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	Motor vehicles £m	Total £m
Depreciation			
Charge for the year	-	1.3	1.3
Carrying amounts			
At 31 December 2008	0.3	6.1	6.4
At 31 December 2009	0.3	3.2	3.5

Cumulative interest charges of £0.5m (2008 : £0.5m) have been capitalised as construction costs and included in land and buildings.

Land and buildings include £4.5m (2008 : £4.4m) 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 £0.7m (2008 : £1.4m). This is in respect of property development and refurbishment.

12. 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. The directors made a full provision of £6.2m against the carrying value of the investment in 2008. As at the balance sheet date the value of the investment was assessed to still be substantially impaired due to the difficulties faced by PPH0 Limited in adhering to its existing financing covenants.

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.

The net liabilities of the joint venture company, not adjusted for the percentage owned by the Group are:	2009 £m	2008 £m
Non-current assets	266.7	266.7
Current assets	12.4	11.1
Current liabilities	(332.0)	(334.3)
Net liabilities of joint venture company	(52.9)	(56.5)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. cont Interest in joint venture (continued)

The non-current assets shown above relate to properties held at their market value assessed as at 31 December 2008. This valuation resulted in a write down of £103.9m in the financial statements of PPH0 Limited (the joint venture holding company) for the year ended 31 December 2008. In 2008 the joint venture bankers informed PPH0 Limited that it was in default of the bank facility loan to value covenant due to the fall in value of the properties and therefore in 2008 the Group's investment in the joint venture was fully impaired to £nil. An indicative valuation performed on these properties at 31 December 2009 indicated that the value of these properties was £272.8m. Accordingly the directors of PPH0 Limited have concluded that as at 31 December 2009 the carrying value of the properties continue to be impaired, although the financial statements in respect of the year ended 31 December 2009 are yet to be finalised. The carrying value of the Group's investment in the joint venture remains impaired at 31 December 2009 on the grounds that the directors consider the investment to be impaired due to the difficulties faced by the joint venture in adhering to its existing financing covenants. For this reason no further profit or loss is recognised in these financial statements in respect of the trading result of the joint venture for the year ended 31 December 2009.

Revenues and expenses of the joint venture, not adjusted for the percentage attributable to the Group are:

	2009 £m	2008 £m
Income	25.1	24.9
Expenses	(20.9)	(20.7)
Income tax expense	(0.6)	0.1
Profit after tax	3.6	4.3
Provision for impairment of non-current assets	-	(103.9)
	3.6	(99.6)

PPH0 Limited has borrowings secured on its land and buildings.

At 31 December 2009 PPH0 Limited has no contractual capital commitments.

13. Inventories

	2009 £m	2008 £m
New and used vehicles	376.9	517.5
Consignment vehicles	33.4	96.2
Vehicle parts and other inventories	34.9	42.1
	445.2	655.8
Inventories recognised as an expense during the year	2,660.2	3,553.2
Inventories stated at net realisable value	52.3	237.8
Carrying value of inventories subject to retention of title clauses	359.3	564.8

During the year £11.3m was recognised as a credit in respect of the write down of inventories (2008 : £25.1m expense).

Movements in consignment vehicle inventory and its corresponding liability within trade and other payables are not included within movements of inventories and payables as stated in the consolidated cash flow statement as no cash flows arise in respect of these transactions until the vehicle is either sold or purchased at which point it is reclassified within new and used vehicle inventory.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. Trade and other receivables

	2009 £m	2008 £m
Trade receivables	46.7	64.9
Allowance for doubtful debts	(0.5)	(1.0)
	46.2	63.9
Other receivables	50.8	57.3
Prepayments	10.4	12.4
	107.4	133.6

All amounts are due within one year.

Total trade receivables held by the Group at 31 December 2009 was £46.2m (2008 : £63.9m). No trade receivables have been classified as held for sale (2008 : £nil).

The average credit period taken on sales of goods is 29 days (2008 : 29 days). No interest is charged on trade receivables. 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 2009 trade receivables are shown net of an allowance for impairment of £0.5m (2008 : £1.0m). An expense has been recognised in respect of impairment losses during the year of £nil (2008 : £0.6m).

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 than 5% of the total balance of trade receivables.

The ageing of trade and other receivables at the reporting date was:	Trade receivables 2009 £m	Other receivables 2009 £m	Trade receivables 2008 £m	Other receivables 2008 £m
Not past due	32.5	45.5	37.0	50.1
Past due 0-30 days	10.8	3.0	19.2	2.0
Past due 31-120 days	2.7	2.3	6.6	5.2
Past due 120+ days subject to impairment	0.7	-	2.1	-
	46.7	50.8	64.9	57.3
Impairment	(0.5)	-	(1.0)	-
	46.2	50.8	63.9	57.3

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:	2009 £m	2008 £m
Balance at 1 January	1.0	0.5
Utilisation	(0.5)	(0.1)
Expense recognised	-	0.6
Balance at 31 December	0.5	1.0

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Trade and other payables

	2009 £m	restated* 2008 £m
Trade payables	502.1	639.4
Consignment vehicle liabilities	33.4	96.2
Payments received on account	10.8	8.2
Other taxation and social security	13.8	9.3
Accruals	131.5	162.8
	691.6	915.9

* see note 1(c)

Trade and other payables are held at amortised cost and their contracted cashflows are expected to mature within 12 months of the balance sheet date.

16. Interest bearing loans and borrowings

	2009 £m	2008 £m
Non-current liabilities		
Unsecured bank loans	-	314.7
Secured bank loans	226.1	-
Unsecured loan notes	0.2	148.9
Secured loan notes	129.7	-
Finance lease liabilities (see note 25)	2.6	4.6
	358.6	468.2
Current liabilities		
Unsecured bank loans	-	78.9
Secured bank loans	64.7	-
Finance lease liabilities (see note 25)	2.2	3.3
	66.9	82.2

Note 17 sets out the maturity profile of non-current liabilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. 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.

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 Group does not actively manage cash flow interest rate risk as 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) 2009 £m	Profit / (loss) 2008 £m
100 bps increase	(5.6)	(7.5)
Tax effect	1.6	2.1
Effect on net assets	(4.0)	(5.4)
100 bps decrease	5.6	7.5
Tax effect	(1.6)	(2.1)
Effect on net assets	4.0	5.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. cont Financial instruments and derivatives (continued)

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. The Group has therefore borrowed USD 25.0m (2008: USD 50.0m) against its net assets held in overseas subsidiaries.

Where the Group borrows in a foreign currency to finance assets denominated in sterling the Group would generally seek to swap borrowings into sterling. Prior to refinancing in April 2009, the Group had taken out hedges to effectively swap all of its fixed rate loan notes denominated in US dollars into floating rate sterling. The refinancing saw an increase in the coupon rates and the Group maintained the previous derivatives it had in place, with the following hedge designations:

	Hedged item
9.310% USD 110m loan notes 2012	Principal and underlying changes in interest rates, excluding changes due to credit quality
9.310% USD 67m loan notes 2014	Principal and underlying changes in interest rates, excluding changes due to credit quality
9.834% GBP 17m loan notes 2014	Principal and underlying changes in interest rates, excluding changes due to credit quality

Foreign exchange rate risk sensitivity analysis

The effect of the above hedging strategy is to leave "unhedged" the additional coupon payable consequent to the refinancing. The only unhedged exposure is therefore the additional USD coupon payable. It is the Group's current intention to settle these liabilities at spot rate when they fall due. The Group is therefore exposed to risk in respect of exchange rate movements affecting the sterling value of settling the coupon. The table below shows the effect of a 10% change in the GBP/USD exchange rate showing how profit or loss would have varied in the period on the assumption that the full additional coupon was payable for the entire period and settled at the average GBP/USD exchange rate prevailing for the period.

	Profit / (loss) 2009 £m
10% increase	0.4
Tax effect	(0.1)
Effect on net assets	0.3
10% decrease	(0.4)
Tax effect	0.1
Effect on net assets	(0.3)

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 appropriate evaluation of credit risk. Credit risk arises in respect of amounts due from vehicle 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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. cont 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. Under normal conditions, 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. Due to the extreme changes in economic climate, the Group has been unable to achieve all of these objectives for 2009. Earnings per share growth of over 100% exceeded the Group's annual target of RPI+10%, albeit from a relatively low base in 2008. Similarly, the Group's debt/equity ratio improved from 314.2% at 31 December 2008 to 297.8% at 31 December 2009. During the continuing depressed economic conditions, the Board intends to reduce debt by applying any surplus cash against its borrowings rather than to buy back shares or pay dividends.

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 has in the past used profits made on surplus property sales to purchase its own shares and cancel them in order to promote growth in earnings per share. In the near term, the Group expects not to follow this strategy but instead to use proceeds from the sales of surplus properties to either reinvest in the business or to reduce debt. The Group may also issue shares or purchase them in the market to satisfy share incentives issued to employees of the Group. The Group encourages 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.

Following the Group's refinancing, the Group changed its approach to capital management in the year by placing increasing emphasis on debt reduction, as explained above. There were no other changes to 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 certain 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:

	Assets carrying value & fair value 2009 £m	Liabilities carrying value & fair value 2009 £m	Assets carrying value & fair value 2008 £m	Liabilities carrying value & fair value 2008 £m
Fair value hedge				
Currency and interest swap (USD 110m / GBP : fixed rate to floating rate) expiring 2011	12.7	-	21.6	-
Currency and interest swap (USD 67m / GBP : fixed rate to floating rate) expiring 2014	9.4	-	15.5	-
Interest swap (GBP 17m : fixed rate to floating rate) expiring 2014	1.2	-	1.4	-
Total	23.3	-	38.5	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. cont Financial instruments and derivatives (continued)

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. Changes in the fair value of the risk being hedged, being changes in the fair value of the loan notes, amounted to £16.0m (2008 : £44.0m), which was offset by changes in the fair value of the hedging derivative financial instrument of £15.2m (2008 : £44.1m), giving a net fair value gain of £0.8m disclosed as finance income in note 7 (2008 : fair value expense of £0.1m disclosed in finance expense in note 6).

Hedges of net investments in overseas operations

Included within bank borrowings are balances denominated in US dollar which are designated as a hedge of the net investment in the Group's US subsidiaries. The aggregate fair value of these borrowings was £15.5m at 31 December 2009. Foreign exchange gains of £2.7m 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 £1.6m 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 2009 £m	Carrying value & fair value 2008 £m
Bank balances and cash equivalents	86.8	154.6

Borrowings

	Carrying value 2009 £m	Fair value 2009 £m	Carrying value 2008 £m	Fair value 2008 £m
Non-current:				
Bank borrowings	226.1	224.4	314.7	280.1
5.65% USD 110m loan notes 2011	-	-	79.2	79.2
5.95% USD 67m loan notes 2014	-	-	51.0	51.0
6.66% GBP 17m loan notes 2014	-	-	18.5	18.5
9.310% USD 110m loan notes 2012	68.7	76.5	-	-
9.310% USD 67m loan notes 2014	43.2	51.9	-	-
9.834% GBP 17m loan notes 2014	17.8	21.3	-	-
Other loan notes	0.2	0.2	0.2	0.2
Finance leases	2.6	2.6	4.6	4.6
Total non-current	358.6	376.9	468.2	433.6
Current:				
Bank borrowings	64.7	64.7	78.9	70.2
Finance leases	2.2	2.2	3.3	3.3
Total borrowings	425.5	443.8	550.4	507.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. cont Financial instruments and derivatives (continued)

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured by a Level 2 valuation method.

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 within the range set out below. Information regarding classification of balances and interest, the range of interest rates applied in the year to 31 December 2009 and repricing periods, is set out in the table below:

	Carrying 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	86.8	Amortised cost	Floating GBP	0.50% - 0.85%	N/A	N/A	6 months or less
Borrowings							
Non-current:							
Bank borrowings	210.6	Amortised cost	Floating GBP	1.50% - 4.83%	N/A	N/A	6 months or less
Bank borrowings	15.5	Amortised cost	Floating USD	1.28% - 3.57%	N/A	N/A	6 months or less
9.310% USD 110m loan notes 2012	68.7	Amortised cost*	Fixed USD	9.31%	Floating GBP	4.76% - 8.43%	6 months or less
9.310% USD 67m loan notes 2014	43.2	Amortised cost*	Fixed USD	9.31%	Floating GBP	4.53% - 8.20%	6 months or less
9.834% GBP 17m loan notes 2014	17.8	Amortised cost*	Fixed GBP	9.83%	Floating GBP	4.88% - 8.56%	6 months or less
Other loan notes	0.2	Amortised cost	Fixed GBP	12.50%	N/A	N/A	N/A
Finance leases	2.6	Amortised cost	Fixed GBP	5.29% - 7.15%	N/A	N/A	see note 25
Total non-current	358.6						
Current:							
Bank borrowings	55.4	Amortised cost	Floating GBP	1.50% - 4.83%	N/A	N/A	6 months or less
Bank borrowings	9.3	Amortised cost	Floating USD	1.70% - 3.92%	N/A	N/A	6 months or less
Finance leases	2.2	Amortised cost	Fixed GBP	5.29% - 7.15%	N/A	N/A	see note 25
Total borrowings	425.5						

*The classification of these items is at amortised cost with a fair value basis adjustment, i.e. the carrying amount has been adjusted for fair value changes attributable to the hedged risk.

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

	2009 £m	2008 £m
Pound sterling	400.7	501.8
US dollar	24.8	48.6
	425.5	550.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. cont Financial instruments and derivatives (continued)

The maturity of non-current borrowings is as follows:	2009 £m	2008 £m
Between 1 and 2 years	41.0	314.7
Between 2 and 5 years	315.9	80.9
Over 5 years	1.7	72.6
	358.6	468.2

Maturities include amounts drawn under revolving credit facilities which are contractually repayable generally within a month of the year end but which may be redrawn at the Group's option. The maturities above therefore represent the final repayment dates for these facilities. If the amounts drawn at the year end were redrawn at the Group's usual practice of monthly drawings, the total cash outflows associated with all borrowings, assuming interest rates remain at the same rates as at the year end, are estimated on a undiscounted basis as follows:

	Carrying amount	Contractual cashflows	Within 6 months	6 - 12 months	1-2 years	2-5 years	over 5 years
Bank borrowings	290.8	332.6	56.3	26.4	66.0	183.9	-
Loan notes	129.9	157.8	3.7	3.7	7.3	142.9	0.2
Finance leases	4.8	10.3	-	2.6	0.8	0.7	6.2
	425.5	500.7	60.0	32.7	74.1	327.5	6.4

The holders of the 2014 loan notes have an option to require repayment in April 2012 and accordingly this date has been used as the final contractual maturity date for the maturity analysis provided above.

The Group has the following undrawn borrowing facilities:

	2009 £m	2008 £m
Expiring in more than one year but not more than two years	-	155.4
Expiring in more than two years	117.1	-
	117.1	155.4

Refinancing terms

The Group was refinanced in April 2009. The impact of the refinancing during 2009 and the balance sheet position at 31 December 2009 are set out below:

As at 31 December 2009, the Group has a £380m credit facility, expiring as set out below:

Term loan	Expiry date	£m
	June 2010	20.0
	December 2010	20.0
	June 2011	20.0
	December 2011	20.0
	April 2012	90.0
Total term loan		170.0
Revolving credit facility	April 2012	210.0
		380.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. cont Financial instruments and derivatives (continued)

The Group also has the following expiry dates for its loan notes:

Loan notes	Expiry date
9.31% USD 110m loan notes 2012	April 2012
9.31% USD 67m loan notes 2014	February 2014
9.834% GBP 17m loan notes 2014	February 2014

The holders of the 2014 loan notes have an option to require repayment in April 2012 and accordingly this date has been used as the final contractual maturity date for the maturity analysis provided above.

Loan arrangements which were in place prior to April 2009 were extinguished in full as part of the Group's refinancing. Costs of £22.7m have been expensed during 2009 in line with IAS 39: Financial Instruments; recognition and measurement, as more fully explained below. The new loan finance at inception has been recognised at fair value and is subsequently measured at amortised cost, being the amount measured at initial recognition (at fair value) plus the cumulative amortisation using the effective interest method of the difference between that amount and the amount at maturity.

Finance terms

Margin

Term loan and revolving credit facility: 3.25%, an increase of 2.35% over the margin that was payable up until April 2009. A commitment fee in respect of undrawn amounts is payable at 1.625% of the undrawn amounts. USD denominated loan notes: a new coupon of 9.310% with effect from April 2009, an increase over the coupons that were payable up until that date of between 3.36% and 3.66%. GBP denominated loan notes: a new coupon of 9.834% from April 2009, an increase in the coupon that was payable up until that date of 3.17%. Both of these new coupon rates reflect a blended increase in margin over that payable up until April 2009 of 2.50% after taking into account the new maturities.

Restructuring fee

1% of the total commitments (term loan, revolving credit facility and loan notes) was paid in April 2009, amounting to £5.5m.

This amount was expensed during the year in line with IAS 39: Financial Instruments: recognition and measurement, following extinguishment of the previous loan arrangements.

Warrants

Warrants over 5% of the issued share capital at 30 April 2009 were issued in May 2009 and further warrants over 2.5% of the issued share capital at 30 April 2009 were issued in June 2009.

The total charge to profit and loss in respect of the issue of these warrants is £8.0m, which has been expensed in full during the year in line with IAS 39: Financial Instruments: recognition and measurement, following extinguishment of the previous loan arrangements.

Success and stabilisation fee

At each anniversary of the facility agreements (30 April), a fee of 1% of the commitments at that date, is payable in cash or shares of the Company, or 1.25% if settlement is deferred. At repayment or maturity, a fee of 1% of the commitments at that date is payable pro-rata for the period of time elapsed between the most recent anniversary and the date of repayment or maturity, payable in cash or shares of the Company. The total amount expensed during 2009 is £3.1m, which also represents the total accrual at 31 December 2009. At maturity or repayment, a fee of 2.50% of the commitments at that date is payable in cash or shares of the Company. The total amount expensed during 2009 is £2.3m, which also represents the total accrual at 31 December 2009.

The total estimated cost of the restructuring fee, warrants and success and stabilisation fee amounts to £29.7m. Of this, £18.9m has been charged to profit and loss during the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. cont Financial instruments and derivatives (continued)

Covenants

The term loan, revolving credit facility and loan notes are subject to covenants with respect to debt/EBITDA, absolute EBITDA, fixed charge cover and net capital expenditure.

Security

The Group has granted security over certain of its assets, not subject to any other arrangements, mainly comprising property, plant and equipment of £199.1m, trade and other receivables of £97.0m and certain vehicle inventories of £8.6m.

Professional fees and other items expensed

Professional fees of the refinancing of £1.7m were expensed in 2008 as a non-underlying item. In addition, during the previous year the Group incurred a fee of £2.9m in respect of deferral of covenant measurements. Additional professional fees of £9.2m were incurred during 2009 in arranging the new financing.

Summary of refinancing costs and accounting treatment

	Total £m	Expensed in 2009 £m	Accrued at 31.12.09 £m	To accrue in future periods £m	Accounting treatment
Restructuring fee	5.5	5.5	-	-	IAS 39; expensed in full on extinguishment of previous financing
Warrants	8.0	8.0	-	-	IAS 39; expensed in full on extinguishment of previous financing
Professional fees	9.2	9.2	-	-	Fees incurred in 2009 in arranging new facilities
Total initial costs of refinancing	22.7	22.7	-	-	
Success and stabilisation fee	16.2	5.4	5.4	10.8	
	38.9	28.1	5.4	10.8	

Financing of overseas businesses

Current bank borrowings shown above include the following facilities used to fund our overseas businesses.

	Currency	Amount	Expiry date	Margin
Netherlands	Floating GBP	£20.8m	Earlier of April 2012 or on demand	3.25%
USA	Floating USD	\$18.0m	Earlier of December 2010 or on demand	3.50%

On refinancing in April 2009, the facility in respect of the Netherlands was £23.5m. An arrangement fee of 1% of the commitment £0.2m was paid in April 2009. This amount has been capitalised and is amortised over the expected term to maturity. The total amount expensed during 2009 was £0.05m and the remaining amount left to amortise at 31 December 2009 is £0.15m. A fee of 5% of the average outstanding commitment over the term is payable at maturity or repayment of the facility. The total amount expensed during 2009 is £0.3m, which also represents the total accrual at 31 December 2009. £2.8m of the facility was repaid in December 2009 out of the proceeds of sale of property.

At inception in April 2009, the USA facility expired on the earlier of June 2010 or on demand. In December 2009 the expiry date was amended to the earlier of December 2010 or on demand upon payment of a fee of \$0.09m. An arrangement fee of 1% of the commitment was paid in April 2009 (\$0.2m). This amount has been capitalised and is amortised over the expected term to maturity. The total amount expensed during 2009 at the prevailing exchange rate was £0.06m and the remaining amount left to amortise at 31 December 2009 is £0.14m.

Both facilities are not subject to covenants but security over assets has been granted, mainly comprising property, receivables and certain vehicle inventories.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. Net Borrowings

	2009 £m	2008 £m
Cash and cash equivalents	86.8	154.6
Current interest bearing loans and borrowings	(66.9)	(82.2)
Non-current interest bearing loans and borrowings	(358.6)	(468.2)
Derivative financial instruments	23.3	38.5
	(315.4)	(357.3)

19. Provisions

The movements in provisions for the year are as follows:

	Warranty service provision £m	Vacant property £m	VAT assessment £m	Total £m
At 31 December 2008	7.4	5.8	26.8	40.0
Provisions made during the year	3.9	4.0	-	7.9
Provisions used during the year	(5.3)	(0.7)	-	(6.0)
Provisions reversed during the year	-	-	(16.2)	(16.2)
At 31 December 2009	6.0	9.1	10.6	25.7
Non-current	2.4	5.5	-	7.9
Current	3.6	3.6	10.6	17.8
	6.0	9.1	10.6	25.7

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 a 5% discount rate and assumes that any sub-let properties will remain so until the end of the sub-lease. It is expected that the majority of this expenditure will be incurred over the next three years.

At 31 December 2008 the Group had made provision of £26.8m in respect of assessments raised by HM Revenue and Customs over the VAT treatment of sales of vehicles to certain disabled customers and the VAT treatment of partial exemption within our finance and insurance operations. The latter issue has been resolved during the year with HM Revenue and Customs conceding the case. As a consequence of this the provision in respect of this matter of £16.2m has been released.

The Group is in continuing discussions with HM Revenue and Customs over the VAT treatment of sales of vehicles to certain disabled customers. We have received VAT assessments in respect of this issue and received advice that it is possible that the Group will not be successful defending the claim though we will continue to defend our position. The total provision for VAT assessments relating to these two issues has therefore decreased to £10.6m at 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. Capital and reserves

Ordinary share capital

	Number	£m
Authorised shares of 5p each at 31 December 2008 and at 31 December 2009	800,000,000	40.0
Allotted, called up and fully paid shares of 5p each at 31 December 2008	656,027,350	32.8
Issued during the year	5,950,367	0.3
Allotted, called up and fully paid shares of 5p each at 31 December 2009	661,977,717	33.1

During the year 5,950,367 ordinary shares were issued pursuant to the exercise of warrants granted in connection with the Group's refinancing. The consideration received on allotment of these shares was in the form of a cancellation of a specific number of warrants determined on the basis of the open market value of the Company's ordinary shares at the time of exercise and to apply that sum cancelled in satisfaction of the exercise price of the remaining warrants. The number of warrants cancelled under this arrangement was 891,447 in settlement of consideration of £0.3m.

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.

Warrants

During the year as part of the Group refinancing 49,202,040 warrants were issued with an exercise price of 5.00p as described in note 17. Movements in the outstanding warrants are shown on the table below:

Exercise period	Date of grant	Exercise price per share	Granted Number	Exercised Number	Lapsed Number	At 31 December 2009 Number
15 May 2009 to 14 May 2012	15 May 2009	5.00	32,801,360	(3,966,912)	(594,297)	28,240,151
26 June 2009 to 25 May 2012	26 June 2009	5.00	16,400,680	(1,983,455)	(297,150)	14,120,075
			49,202,040	(5,950,367)	(891,447)	42,360,226

The total charge to profit and loss in respect of the issue of these warrants is £8.0m, which has been expensed in full during the year in line with IAS 39: Financial instruments; recognition and measurement, following extinguishment of the previous loan arrangements.

The warrants outstanding at 31 December 2009 all have an exercise price of 5.00 pence and a weighted contractual life of 3.0 years. All share warrants are settled in equity.

The average assumptions input into the models for warrants granted were as follows:

	2009
Number of share warrants granted in year	49,202,040
Weighted average share price (pence)	19.7
Weighted average exercise price (pence)	5.00
Weighted average fair value (pence)	16.2
Expected volatility (%)	84.1%
Expected life (years)	3.0
Risk free rate (%)	3.75%
Expected dividend yield (%)	0%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. cont Capital and reserves (continued)

The fair value of the services received in return for share warrants is measured by reference to the fair value of the warrants granted. The estimate of the fair value of the services received in respect of share warrants is measured using the Black-Scholes option pricing model. The weighted average fair value of the warrants at the date of grant for those that are outstanding at 31 December 2009 is 16.2 pence.

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 s733 of the Companies Act 2006.

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 2009 was £4.4m (2008 : £0.3m), being 19.1m (2008 : 19.8m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2008 : £0.40). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2009 was £8.0m (2008 : £8.0m). 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 28 to 37.

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.

21. Dividends

	2009 £m	2008 £m
Ordinary shares		
Final dividend in respect of 2008 of nil p per share (2007 : 2.00p)	-	12.7
Interim dividend in respect of 2009 of nil p per share (2008 : 0.50p)	-	3.2
	-	15.9

The Board are not recommending a final dividend for 2009.

Dividends on the 19.1m shares held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited are waived.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22. Business combinations

There were no business combinations made during the year and during the previous period.
No business combinations have been made between the balance sheet date and the date of this report.

23. Business disposals

Net assets at date of disposal

	Net book value £m
Property, plant and equipment	0.4
Inventories	0.1
	0.5
Profit on sale of businesses	0.1
Proceeds on sale satisfied by cash and cash equivalents	0.6

No cash was disposed as part of any business disposal during the year.

Proceeds on sale satisfied by cash and cash equivalents for the previous period was £7.7m.

24. Cash and cash equivalents

	2009 £m	2008 £m
Bank balances and cash equivalents	86.8	154.6
Cash and cash equivalents in the statement of cash flows	86.8	154.6

25. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2009 £m	2008 £m	2009 £m	2008 £m
Amounts payable under finance leases:				
Within one year	2.6	3.7	2.2	3.3
In the second to fifth years inclusive	1.5	3.8	1.3	3.3
After five years	6.2	6.3	1.3	1.3
	10.3	13.8	4.8	7.9
Less: future finance charges	(5.5)	(5.9)	-	-
Present value of lease obligations	4.8	7.9	4.8	7.9
Amount due for settlement within one year			2.2	3.3
Amount due for settlement in over one year			2.6	4.6
			4.8	7.9

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 two properties on long term leases with a lease term of between 58 and 83 years. The effective interest rates are shown in note 17 above. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. 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:

	2009 £m	2008 £m
Within one year	43.6	43.3
In the second to fifth years inclusive	159.0	165.5
After five years	549.8	692.9
	752.4	901.7

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 the 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 £1.5m (2008 : £0.9m). No contingent rents were recognised in income (2008 : £nil). The Group currently receives rental income on 13 properties on short term leases.

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

	2009 £m	2008 £m
Within one year	1.4	1.2
In the second to fifth years inclusive	5.8	4.7
After five years	7.7	6.4
	14.9	12.3

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

27. Employee benefits

Share Schemes

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

	Weighted average exercise price 2009	Number of options millions 2009	Weighted average exercise price 2008	Number of options millions 2008
Outstanding at beginning of period	38.85p	15.9	60.43p	17.6
Lapsed during the period	73.51p	(2.6)	66.34p	(7.3)
Exercised during the period	-	-	23.47p	(0.8)
Granted during the period	24.67p	15.8	10.39p	6.4
Outstanding at the end of the period	28.09p	29.1	38.85p	15.9
Exercisable at the end of the period	42.97p	6.2	42.60p	6.3

The options outstanding at 31 December 2009 have an exercise price in the range of 10.39 pence to 130.6 pence and a weighted contractual life of 4.4 years. All share options are settled in equity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. cont 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 2009 were as follows:

Exercise period	Date of grant	Scheme description	Exercise price per share	At 31 December 2008 Number	Granted Number	Lapsed Number	At 31 December 2009 Number
21 June 2002 to 20 June 2009	21 June 1999	1999 Executive Scheme	13.0p	12,500	-	(12,500)	-
9 March 2004 to 8 March 2011	9 March 2001	1999 Executive Scheme	18.7p	349,995	-	-	349,995
24 March 2006 to 23 March 2013	24 March 2003	1999 Executive Scheme	23.4p	493,900	-	-	493,900
24 March 2008 to 23 March 2013	24 March 2003	1999 Executive Scheme	23.4p	1,749,995	-	-	1,749,995
1 July 2008 to 31 December 2008	1 July 2003	1998 Sharesave Scheme	24.6p	53,495	-	(53,495)	-
1 July 2010 to 31 December 2010	1 July 2003	1998 Sharesave Scheme	24.6p	213,845	-	(46,235)	167,610
30 September 2006 to 29 September 2013	30 September 2003	1999 Executive Scheme	40.2p	598,370	-	(75,000)	523,370
20 September 2009 to 19 September 2014	20 September 2004	1999 Executive Scheme	60.2p	3,075,000	-	-	3,075,000
1 July 2008 to 31 December 2008	1 July 2005	1998 Sharesave Scheme	60.4p	72,725	-	(72,725)	-
1 July 2010 to 31 December 2010	1 July 2005	1998 Sharesave Scheme	60.4p	1,249,285	-	(282,240)	967,045
1 July 2012 to 31 December 2012	1 July 2005	1998 Sharesave Scheme	60.4p	282,830	-	(110,055)	172,775
1 July 2009 to 31 December 2009	1 July 2006	1998 Sharesave Scheme	130.6p	654,155	-	(645,580)	8,575
1 July 2011 to 31 December 2011	1 July 2006	1998 Sharesave Scheme	130.6p	582,015	-	(330,705)	251,310
1 July 2013 to 31 December 2013	1 July 2006	1998 Sharesave Scheme	130.6p	128,765	-	(70,675)	58,090
19 September 2011 to 18 September 2018	19 September 2008	1999 Executive Scheme	10.39p	6,345,000	-	(215,000)	6,130,000
1 August 2012 to 31 January 2013	13 July 2009	1998 Sharesave Scheme	24.67p	-	15,792,291	(654,763)	15,137,528
				15,861,875	15,792,291	(2,568,973)	29,085,193

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.

On 13 July 2009 options over 15,792,291 ordinary shares of 5p were granted pursuant to the 1998 Sharesave scheme at an exercise price of 24.67p per share.

The grants of share options under the 1999 Scheme prescribed an earnings per share performance criterion. It is a pre-condition to the exercise of grants made under the 1999 Scheme 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 compound the annual rate of inflation as shown by the RPI Index.

There were no exercises of share options during the year. The weighted average share price at the date of exercise for share options exercised during the previous year was 34.4 pence.

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

All options are settled by physical delivery of shares.

The fair value of the 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 2009 is 12.1 pence (2008 : 18.1 pence).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. cont Employee benefits (continued)

There were no executive scheme share options granted during 2009 to any team members. The average assumptions input into the models for options granted under the sharesave schemes and LTIP in each year were as follows:

	1999 Executive Scheme 2009	2008	Sharesave Scheme 2009	2008
Number of share options granted in year	-	6,375,000	15,792,291	-
Weighted average share price (pence)	-	10.39	24.67	-
Weighted average exercise price (pence)	-	10.39	24.67	-
Weighted average fair value (pence)	-	3.83	14.02	-
Expected volatility (%)	-	57.6%	84.1%	-
Expected life (years)	-	3.0	3.0	-
Risk free rate (%)	-	3.81%	3.75%	-
Expected dividend yield (%)	-	5.0%	0%	-

Expected volatility was determined by calculating the historical volatility of the Group's share price over the corresponding historical period with an adjustment made to exclude the abnormal period during the refinancing. 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 £0.5m as an employee benefit cost in respect of equity-settled share based payment transactions (2008 : £0.2m) included within administration costs.

Pension obligations

The Group operates six defined benefit pension schemes (one of which has a defined contribution section) 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.

Four of the schemes have had formal actuarial valuations as at April 2006 and two at April 2007. 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 last actuarial valuation of the Plan was carried out as at 5 April 2006 using the projected unit credit 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 £3.9m, based upon actuarial advice.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. cont Employee benefits (continued)

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 projected unit credit 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 £1.3m, 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 projected unit credit method. At the valuation date, the market value of assets was £23.5m; these assets represented 65.5% of the value of accrued liabilities. 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 £1.3m, based upon actuarial advice.

CD Bramall Retirement Benefits Scheme

The CD Bramall Retirement Benefits Scheme is a funded defined benefit scheme. The defined contribution section has been wound up. The last actuarial valuation was carried out as at 31 March 2006 using the projected unit credit 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 £0.3m, 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 projected unit credit 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 £4.3m, based upon actuarial advice.

Reg Vardy Retirement Scheme

The Reg Vardy Retirement Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 30 April 2007 using the projected unit credit method. At the valuation date, the market value of assets was £40.4m; these assets represented 81% 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 5.4% and the annual rate of pension increases would be between 2.0% - 3.0%.

The employer contributions paid to the Scheme during the year were £1.6m, based upon actuarial advice.

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 2009 to the Stakeholder arrangement were £3.7m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. cont Employee benefits (continued)

IAS19 assumptions

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

	2009	2008	2007
Inflation	3.50%	3.00%	3.20%
Rate of increase in salaries	n/a	n/a	n/a
Rate of increase to pensions in payment	3.37%*	3.20%	3.20%
Discount rate	5.70%	6.30%	6.00%
Mortality table assumption	115% PNMA00 / 110% PNFA00 YOB** mc min 1% imp	115% PNMA00 / 110% PNFA00 YOB** mc min 1% imp	PA92YOB**

* A full breakdown of the assumptions for the rates of increase to pensions in payment for the 31 December 2009 valuation is as follows:

RPI to max 5%	3.50%
RPI to max 3%	2.90%
RPI to min 3% to max 5%	3.70%

The sensitivities regarding the principal assumptions used to measure scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase / decrease by 0.1%	Decrease / increase of £7.1m
Rate of inflation	Increase / decrease by 0.1%	Increase / decrease of £5.8m

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

	2009	2008	2007
Equities	7.50%	7.90%	8.30%
Bonds	5.70%	4.20%	4.80%
Gilts	4.50%	4.20%	4.80%
Cash	0.50%	2.00%	5.00%

The weighted average expected long term rates of return were:

	2009	2008	2007
	6.32%	6.18%	7.35%

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 2009 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:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. cont Employee benefits (continued)

	2009 years	2008 years	2007 years
Males aged 45	23.0	22.9	21.0
Females aged 45	25.8	25.7	24.0
Males aged 65	21.1	21.0	19.7
Females aged 65	23.9	23.8	22.7

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:

Scheme assets and liabilities	2009 £m	2008 £m	2007 £m
Equities	182.2	140.8	223.0
Bonds	13.0	100.3	73.8
Gilts	95.9	-	-
Cash	5.4	10.2	10.5
Fair value of scheme assets	296.5	251.3	307.3
Present value of funded defined benefit obligations	(378.3)	(313.8)	(321.1)
	(81.8)	(62.5)	(13.8)
Adjustment in respect of minimum funding requirement and non-recognition of surplus	-	(2.9)	(45.0)
Net liability on the balance sheet	(81.8)	(65.4)	(58.8)

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

	2009 £m	2008 £m
Net liability for defined benefit obligations at 1 January	(65.4)	(58.8)
Contributions received	12.7	19.0
(Expense) / income recognised in the income statement	(3.8)	4.0
Actuarial gains and losses recognised in equity	(28.2)	(71.7)
Adjustment in respect of minimum funding requirement and non-recognition of surplus	2.9	42.1
Net liability for defined benefit obligations at 31 December	(81.8)	(65.4)

	2009 £m	2008 £m
Actual return on assets	44.6	(58.7)
Expected contributions in following year	15.8	19.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. cont Employee benefits (continued)

Total expense / (income) recognised in the income statement	2009 £m	2008 £m
Interest on obligation	19.4	18.7
Expected return on assets	(15.6)	(22.7)
	3.8	(4.0)
The expense / (income) is recognised in the following line items in the income statement:	2009 £m	2008 £m
Finance costs	19.4	18.7
Finance income	(15.6)	(22.7)
	3.8	(4.0)
Actuarial gains and losses recognised directly in equity	2009 £m	2008 £m
Cumulative amount at 1 January	(44.3)	27.4
Recognised during the period	(28.2)	(71.7)
Cumulative amount at 31 December	(72.5)	(44.3)
Actuarial gains and losses recognised directly in equity	2009 £m	2008 £m
Difference between actual and expected return on scheme assets	29.0	(81.4)
Experience loss on scheme liabilities	(0.1)	(1.6)
Changes in assumptions underlying the present value of scheme obligations	(57.1)	11.3
	(28.2)	(71.7)
Adjustment in respect of minimum funding requirement and non-recognition of surplus	2.9	42.1
	(25.3)	(29.6)
Changes in the present value of the defined benefit obligation	2009 £m	2008 £m
Opening present value of defined benefit obligation	313.8	321.1
Interest cost	19.4	18.7
Actuarial losses / (gains)	57.2	(9.7)
Less benefits paid	(12.1)	(16.3)
Closing present value of defined benefit obligation	378.3	313.8
Changes in the present value of the defined benefit obligation	2009 £m	2008 £m
Opening fair value of assets	251.3	307.3
Expected return on assets	15.6	22.7
Actuarial gains / (losses) on assets	29.0	(81.4)
Contributions by employer	12.7	19.0
Less benefits paid	(12.1)	(16.3)
End of period	296.5	251.3

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. cont Employee benefits (continued)

History of experience adjustments	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	378.3	313.8	321.1	349.0	300.9
Fair value of scheme assets	296.5	251.3	307.3	283.8	210.5
Adjustment in respect of minimum funding requirement and non-recognition of surplus	-	(2.9)	(45.0)	(12.5)	-
Deficit in schemes	81.8	65.4	58.8	77.7	90.4
Experience adjustments on scheme liabilities					
Amount	57.2	(9.7)	(37.6)	(8.0)	38.5
Percentage of scheme liabilities (%)	15.1%	(3.1)%	(11.7)%	(2.3)%	12.8%
Experience adjustments on scheme assets					
Amount	29.0	(81.4)	(9.3)	10.1	21.4
Percentage of scheme liabilities (%)	7.7%	(25.9)%	(2.9)%	2.9%	7.1%

28. Related party transactions

Subsidiaries

The Group's ultimate parent company is Pendragon PLC. A listing of all principal trading subsidiaries is shown within the financial statements of the Company on page 104.

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 its group on short term leases.

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

	2009 £m	2008 £m
Rent paid to related party	24.1	23.5
Management fee received from related party	0.3	0.3
Amounts owed to related party	-	-
Amounts owed from related party	0.2	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28. cont Related party transactions (continued)

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 28 to 37.

Directors of the Company and their immediate relatives control 5.35% of the ordinary shares of the Company.

During the year key management personnel compensation was as follows:

	2009 £m	2008 £m
Short term employee benefits	2.7	1.4
Post-employment benefits	0.2	0.3
	2.9	1.7

29. 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 £17.8m 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 2009 the unamortised amount of the deferred income was £13.9m, all shown within non-current liabilities. In addition, the leases include fixed rental increases. Deferred income also includes £5.9m in this respect, which is recorded within non-current liabilities (2008 total deferred revenue : £19.7m, all non-current).

30. 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 2010.

During the year impairment losses of £1.4m 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 Operating expenses (2008 : £11.9m).

During the year non-current assets classified as held for sale disposed of realised a profit of £0.9m which is included on the income statement under Other income - gains on the sale of businesses and property (2008 : loss of £1.6m).

Four properties previously classified as held for sale have now been de-classified following a decision to re-utilise three as motor vehicle retail sites and one has been let on a short term lease. These assets have been re-classified as property, plant and equipment at their original carrying amount after adjusting for £0.3m depreciation that would have been charged had the asset not been classified as held for sale. In addition, on assessment of the recoverable value of each property impairment charges of £1.3m have been reversed and credited to the income statement. The reversal of impairment and depreciation reinstatement are shown with administration expenses and are presented as a non-underlying item.

These properties form part of central segment assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. 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:

Property valuation

Properties held for sale are stated at the lower of cost and fair value less costs to sell. Properties are valued using a combination of external qualified valuers and in-house experts. Due to the nature of the market, especially in light of current economic conditions a property may ultimately realise proceeds that vary from those valuations applied.

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 planned results for the next four years and cash flows then projected into perpetuity. An average discount rate of 13.8% is used.

Consignment inventories

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.

Inventory valuation

Motor vehicle inventories are stated at the lower of cost and fair value less costs to sell. Fair values are assessed using reputable industry valuation data which is based upon recent industry activity and forecasts. Whilst this data is deemed representative of current values it is possible that ultimate sales values can vary from those applied.

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 and to recognise impairment write downs where necessary.

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 27.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. cont 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.

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 and the VAT treatment of sales of vehicles to certain disabled customers. Whilst the outcome of these issues have still to be resolved, management have made an assessment as to the potential liabilities that may arise in the future.

32. Contingent liabilities

The Group is in discussion with HM Revenue and Customs over issues which may result in additional liabilities to be recognised in future periods and although these liabilities, if any, could potentially be significant, it is not possible at present to quantify them. Accordingly no amounts have been included in the 2009 financial statements in respect of these issues.

COMPANY BALANCE SHEET

at 31 December 2009

	Note	2009 £m	restated* 2008 £m
Fixed assets			
Investments	5	850.6	850.6
Loans to subsidiary undertakings		90.0	90.0
		940.6	940.6
Current assets			
Debtors	6	32.2	55.9
Cash at bank and in hand		26.3	26.0
		58.5	81.9
Creditors: amounts falling due within one year	7	(576.4)	(474.0)
Net current liabilities		(517.9)	(392.1)
Total assets less current liabilities		422.7	548.5
Creditors: amounts falling due after more than one year	8	(355.8)	(463.4)
Net assets		66.9	85.1
Capital and reserves			
Called up share capital	11	33.1	32.8
Share premium account	12	56.8	56.8
Capital redemption reserve	12	2.5	2.5
Other reserves	12	13.9	13.9
Profit and loss account	12	(39.4)	(20.9)
Equity shareholders' funds		66.9	85.1

* see note 1(k)

Approved by the Board of Directors on 12 March 2010 and signed on its behalf by:

T G Finn

Chief Executive

T P Holden

Finance Director

Registered Company Number: 2304195

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

year ended 31 December 2009

	Note	2009 £m	restated* 2008 £m
Loss for the financial year		(26.2)	(41.2)
Dividends paid	4	-	(15.9)
		(26.2)	(57.1)
Purchase of own shares in share trusts		-	0.1
Share based payments		8.0	-
Net reduction to shareholders' funds		(18.2)	(57.0)
Opening shareholders' funds		85.1	142.1
Closing shareholders' funds		66.9	85.1

* see note 1(k)

The notes on pages 101 to 109 form part of these financial statements

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 except for certain financial instruments which are stated at their fair value. 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.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY *CONTINUED*

1. cont Accounting policies (continued)

(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.

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.

(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) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY CONTINUED

1. cont Accounting policies (continued)

(k) Prior year adjustments In preparing the accounts for the year ended 31 December 2009 and as a result of ongoing discussions with the Financial Reporting Review Panel, the directors have reconsidered and adjusted the accounting for certain matters in the prior period.

At 31 December 2008, the Company accrued £6.6m of professional fees, which comprised the lender's own professional fees that the Company had by that date agreed to reimburse and fees for professional services provided directly to the Company in relation to the refinancing. Although the professional services were performed in 2009, the directors took the view that these costs were unavoidable at 31 December 2008 and accrued for them accordingly at that date. However, having examined the accounting in more detail, the directors have concluded that these costs should not have been accrued in last year's accounts because the service had not been provided at that date. Instead they have now been expensed in the year ended 31 December 2009. Consequential adjustments have also been made in respect of the tax effect of these amounts. The amounts impacted in the financial statements are summarised below:

Profit and loss account	2008 £m
Decrease in loss for the year	4.8
<hr/>	
Balance sheet:	2008 £m
Decrease in amounts due to subsidiary undertakings and current liabilities	6.6
Decrease in deferred tax asset	(1.8)
Increase in net assets	4.8

2. Profit and loss account of the Company

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, 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 2009 is £26.2m (2008 : £41.2m as restated).

During the year the Company has renewed its borrowing facilities, the majority of which now expire in 2012. A summary of the costs and fees incurred by the Company and included in its loss for the year is presented in note 17 of the consolidated financial statements on page 84.

3. Directors

Total emoluments of directors (including pension contributions) amounted to £2.9m (2008 : £1.7m).

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 28 to 37.

The directors are the only employees of the Company.

4. Dividends

	2009 £m	2008 £m
Ordinary shares		
Final dividend in respect of 2008 of nil p per share (2007 : 2.00p)	-	12.7
Interim dividend in respect of 2009 of nil p per share (2008 : 0.50p)	-	3.2
	-	15.9

The Board are not recommending a final dividend for 2009.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY CONTINUED

5. Investments

	Shares in joint venture £m	Shares in subsidiary undertakings £m	Total £m
At 31 December 2008 and 31 December 2009	-	850.6	850.6

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

The investment in PPH0 Limited was fully impaired in 2008 as a result of the circumstances described in note 12 of the Group financial statements. An impairment charge of £58.6 was also recognised in 2008 in respect of shares in subsidiary undertakings as a result of business units pending closure and current trading conditions. There were no further impairments made in 2009.

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 subsidiaries.

Name	Activity
Incorporated in Great Britain :	
Alloy Racing Equipment Limited	Motor vehicle dealer
Bramall Quicks Dealerships Limited	Motor vehicle dealer
CD Bramall Dealerships Limited	Motor vehicle dealer
CD Bramall Motors Limited	Motor vehicle dealer
Chatfield Martin Walters Limited	Motor vehicle dealer
Derwent Vehicles Limited	Motor vehicle dealer
National Fleet Solutions Limited	Motor vehicle dealer
Pendragon Contracts Limited	Contract hire & fleet management
Pendragon Finance & 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
Pendragon Property Holdings Limited	Property holdings
Pendragon Sabre Limited	Motor vehicle dealer
Pinewood Technologies PLC *	Computer systems and services
Reg Vardy (MML) Limited	Motor vehicle repairs
Reg Vardy (VMC) Limited **	Motor vehicle dealer
Reg Vardy Limited *	Motor vehicle dealer
Stripstar Limited	Motor vehicle dealer
Vardy Marketing Limited	Marketing services
Victoria (Bavaria) Limited	Motor vehicle dealer

* Direct subsidiary of Pendragon PLC

** Pendragon PLC owns 95% of the issued ordinary share capital

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY CONTINUED

5. cont Investments (continued)

Name	Activity
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

6. Debtors

	2009 £m	restated* 2008 £m
Amounts due within one year:		
Corporation tax	-	10.6
Other debtors	0.2	0.2
	0.2	10.8
Amounts due after more than one year:		
Deferred tax (see note 9)	8.7	6.6
Derivative financial instruments	23.3	38.5
	32.0	45.1
	32.2	55.9

* see note 1 (k)

Details of valuation techniques and fair values of derivative financial instruments are given above in note 17 to the consolidated financial statements on pages 79 and 80 in the section headed 'Fair value hedges of interest rate and currency risk'.

7. Creditors: amounts falling due within one year

	2009 £m	restated* 2008 £m
Bank loans	34.6	40.0
Amounts due to subsidiary undertakings	534.2	434.0
Corporation tax	1.3	-
Other creditors and accruals	6.3	-
	576.4	474.0

* see note 1 (k)

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY CONTINUED

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

	2009 £m	2008 £m
Bank loans (repayable between one and two years)	40.0	40.0
Bank loans (repayable between two and five years)	186.1	274.7
5.65% USD 110m loan notes 2011 (repayable between two and five years)	-	79.2
9.310% USD 110m loan notes 2012 (repayable between two and five years)	68.7	-
9.310% USD 67m loan notes 2014 (repayable between two and five years)	43.2	-
9.834% GBP 17m loan notes 2014 (repayable between two and five years)	17.8	-
Loan notes (repayable after five years)	-	69.5
	355.8	463.4
Loan notes (repayable after five years) comprise:	2009 £m	2008 £m
5.95% USD 67m loan notes 2014	-	51.0
6.66% GBP 17m loan notes 2014	-	18.5
	-	69.5

Full details of the Company's borrowings including security and maturity are given in note 17 to the consolidated financial statements.

9. Deferred tax

The movements in the deferred tax asset for the year are as follows:

	restated* Deferred tax £m
At 31 December 2008	6.6
Profit and loss account	2.1
At 31 December 2009	8.7

Deferred tax asset is shown within debtors (see note 6).

The amount of deferred tax asset in the financial statements is as follows:

	2009 £m	restated* 2008 £m
Losses	8.1	5.9
Other timing differences	0.6	0.7
	8.7	6.6

* see note 1(k)

A deferred tax asset has been recognised in respect of tax losses carried forward at 31 December 2009 as it is expected that the Company will generate sufficient taxable profits in the foreseeable future for these tax losses to be utilised against.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY CONTINUED

10. Share based payments

During the year as part of the refinancing of the Pendragon Group 49,202,040 share warrants were issued with an exercise price of 5.00p as described in note 17 to the consolidated financial statements. Movements in the outstanding warrants are shown on the table below:

Exercise period	Date of grant	Exercise price per share	Granted Number	Exercised Number	Lapsed Number	At 31 December 2009 Number
15 May 2009 to 14 May 2012	15 May 2009	5.00	32,801,360	(3,966,912)	(594,297)	28,240,151
26 June 2009 to 25 May 2012	26 June 2009	5.00	16,400,680	(1,983,455)	(297,150)	14,120,075
			49,202,040	(5,950,367)	(891,447)	42,360,226

The total charge to profit and loss in respect of the issue of these warrants is £8.0m, which has been expensed in full during the year in line with FRS26: Financial instruments; recognition and measurement, following extinguishment of the previous loan arrangements.

The warrants outstanding at 31 December 2009 all have an exercise price of 5.00 pence and a weighted contractual life of 3.0 years. All share warrants are settled in equity.

The average assumptions input into the models for warrants granted were as follows:

	2009 £m
Number of share warrants granted in year	49,202,040
Weighted average share price (pence)	19.7
Weighted average exercise price (pence)	5.00
Weighted average fair value (pence)	16.2
Expected volatility (%)	84.1%
Expected life (years)	3.0
Risk free rate (%)	3.75%
Expected dividend yield (%)	0%

The fair value of the services received in return for share warrants is measured by reference to the fair value of the warrants granted. The estimate of the fair value of the services received in respect of share warrants is measured using the Black-Scholes option pricing model. The weighted average fair value of the warrants at the date of grant for those that are outstanding at 31 December 2009 is 16.2 pence.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY CONTINUED

11. Called up share capital

	Number	£m
Authorised shares of 5p each at 31 December 2008 and at 31 December 2009	800,000,000	40.0
Allotted, called up and fully paid shares of 5p each at 31 December 2008	656,027,350	32.8
Issued during the year	5,950,367	0.3
Allotted, called up and fully paid shares of 5p each at 31 December 2009	661,977,717	33.1

During the year 5,950,367 ordinary shares were issued pursuant to the exercise of warrants granted in connection with the Group's refinancing. The consideration received on allotment of these shares was in the form of a cancellation of a specific number of warrants determined on the basis of the open market value of the Company's ordinary shares at the time of exercise and to apply that sum cancelled in satisfaction of the exercise price of the remaining warrants. The number of warrants cancelled under this arrangement was 891,447 in settlement of consideration of £0.3m.

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 2009 are fully disclosed above on page 90 of this report.

12. Reserves

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
At 31 December 2008 as previously stated	56.8	2.5	13.9	(25.7)
Prior year adjustment	-	-	-	4.8
At 31 December 2008 as restated	56.8	2.5	13.9	(20.9)
Loss for the financial year	-	-	-	(26.2)
On issue of shares	-	-	-	(0.3)
Share based payments	-	-	-	8.0
At 31 December 2009	56.8	2.5	13.9	(39.4)

The market value of the investment in the Company's own shares at 31 December 2009 was £4.4m (2008 : £0.3m), being 19.1m (2008 : 19.8m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2008 : £0.40). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2009 was £8.0m (2008 : £8.0m). 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 28 to 37.

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.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY CONTINUED

13. Financial instruments and derivatives

	2009 £m	2008 £m
Changes in fair value charged to profit and loss	0.8	0.1

Details of valuation techniques and fair values of each category of financial instruments are given above in note 17 to the consolidated financial statements on pages 79 and 80 in the section headed 'Fair value hedges of interest rate and currency risk'.

14. 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 liabilities 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 2009 the scheme had a deficit on an FRS 17 basis of £40.2m (2008 : £27.2m).

The latest full actuarial valuation was carried out at 5 April 2006 and was updated for FRS 17 purposes to 31 December 2009 by a qualified independent actuary.

The Company has no outstanding pension contributions (2008 : £nil).

15. Related party transactions

Identity of related parties

The Company has related party relationships with its subsidiaries, its joint venture (see note 12 to the consolidated financial statements on page 73), and with its key management personnel.

Transactions with related parties

The transaction with directors of the Company and the joint venture PPH0 Limited are set out in note 28 to the consolidated Financial Statements on page 96 above.

16. 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.

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 per transaction.

1.5% commission on first £5,000

0.85% commission on the next £5,000

0.15% commission thereafter

Barclays Stockbrokers can offer this service to you and can be contacted on 0845 702 3021*

*Calls made to 0845 numbers are free for BT residential customers as part of their inclusive call package; otherwise calls will cost no more than 4p per minute plus 8p call set-up fee (current as at February 2010). The price on non-BT phone lines may vary; please check with your service provider. You can only use these numbers if you are calling from within the UK. Calls may be recorded to monitor the quality of service, to check instructions and for security purposes.

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Capita Registrars, 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 www.capitadeal.com) at commission of 1% of the value of the trade, minimum £20/maximum £75 dealing charge, or by telephone on 0871 664 0454* at commission of 1.5% of the value of the trade, minimum £25/maximum £102.50 dealing charge.

Further details of the services including full Terms and Conditions may be obtained by telephoning 0871 664 0454 (*calls cost 10p per minute plus network extras, lines are open Monday-Friday 8am-4.30pm).

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 (www.fsa.gov.uk/register Register 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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