PENDRAGON
PLC

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FULL YEAR RESULTS TO 31 DECEMBER 2010

Pendragon PLC, the UK's leading automotive retailer group, today reports audited results for the twelve months to 31 December 2010.

Summary

Revenue £3,575.0 million (2009: £3,191.7 million)

Operating profit £63.2 million (2009: £56.7 million)

Underlying* operating margin 2.1% (2009: 1.7%)

Profit before tax £11.0 million (2009: £1.3 million)

Underlying* profit before tax £25.2 million (2009: £10.1 million)

Basic earnings per share 0.9p (2009: 0.1p)

Underlying* basic earnings per share 2.5p (2009: 1.1p)

Net borrowings £325.5 million (2009: £315.4 million)

*Underlying results exclude items that are unusual because of their size, nature or incidence.

Trevor Finn, Chief Executive, commented:

"Pendragon has made considerable strides in 2010, delivering a significant improvement in profitability over 2009. Underlying profit before tax has more than doubled reflecting the continued progress that the Group has made during the year. We have benefited from our scale as the largest car retailer in the UK combined with our success in driving performance through our operational initiatives. The results of our used car operations have been particularly pleasing with outperformance against the market. We continue to make progress in our aftersales segment despite a reduced vehicle parc in some of our key franchises. New car operations performed strongly due to the franchise mix we hold and our continued improvements in this sector. While the Group performed well in 2010, what's more pleasing is to see that momentum carried forward into January, and we look forward to it continuing during 2011."

Enquiries:

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CHIEF EXECUTIVE'S OPERATIONAL REVIEW

Introduction

The Group has consolidated on its half year position in 2010 and continued to drive profitability across the Group. This has been achieved by a combination of improved business performance, reduced costs and operating efficiencies. This resulted in a 150.0% increase in underlying profit before tax over the prior period to £25.2 million. The previously reported strong recovery in Stratstone and improvement in the Evans Halshaw divisions has continued and the results from California and the Support Businesses are encouraging.

The Group has right sized the business and is well positioned for 2011 with a refined portfolio of franchises. However, we will continue to keep under review individual franchise points from a strategic and cost perspective. The Group is making good progress on a number of initiatives in the aftersales sector. The Group will continue to grow its used vehicle volumes in 2011 through further used car supermarket start-ups under the 'Quicks' brand and further progressing its used car processes and initiatives across the Group. The existing portfolio of franchise points has further capacity for growth in 2011.

Financial Performance Summary

The results for the twelve months to 31 December 2010 are summarised as follows:

Financial Performance Summary	2010 Underlying £m	2010 Total £m	2009 Underlying £m	2009 Total £m
Revenue	3,534.3	3,575.0	3,172.7	3,191.7
Underlying operating profit	75.1	75.1	53.4	53.4
Non-underlying operating (costs)/income	-	(12.2)	-	2.2
Operating profit before other income	**75.1**	**62.9**	**53.4**	**55.6**
Other income – gain on sales of property and businesses	-	0.3	-	1.1
Operating profit	**75.1**	**63.2**	**53.4**	**56.7**
Underlying net finance costs	(49.9)	(49.9)	(43.3)	(43.3)
Non-underlying finance costs	-	(2.3)	-	(12.1)
Profit before tax	**25.2**	**11.0**	**10.1**	**1.3**
Tax	(9.1)	(5.4)	(2.9)	(0.5)
Profit after tax	**16.1**	**5.6**	**7.2**	**0.8**
Basic earnings per share	-	0.9p	-	0.1p
Underlying basic earnings per share	2.5p	-	1.1p	-

Underlying revenue has increased by £361.6 million, largely due to used and new department improvements which account for £346.9 million of this total. The Group continues to be selective on its low margin fleet activity. This is reflected in a further 4,100 unit reduction in fleet activity over 2009. Underlying operating profits were £75.1 million compared to £53.4 million in 2009 with significant improvements in profitability in the Stratstone, Evans Halshaw and California segments. A key aspect of this improvement in profitability has been the operational gearing effect of increased gross profit with well controlled operating costs. Costs will remain under management focus in 2011 to ensure further leverage is achieved. Within the motor division results, aftersales remains a key priority and the

Group's like for like aftersales performance has been resilient against the shrinking car parc of vehicles under three years old. This has historically been the primary market that the Group has operated within. This performance in aftersales has been supported by the roll-out of our Vehicle Health Check programme, additional capacity to undertake MOT work and the increased deployment of service packages. Both of these initiatives are designed to retain more customers and increase the level of work undertaken per appointment. Like for like used volume increases have been a major highlight for the Group, up 12.1% on the prior year. Furthermore, new volume and margin improvements have been significant for some of our key franchises, assisting overall profitability. Underlying finance costs have increased by £6.6 million on 2009 mainly due to the full year effect in 2010 of the refinancing completed in April 2009. Profit before tax was £11.0 million (2009: £1.3 million) and underlying profit before tax more than doubled, rising from £10.1 million in 2009 to £25.2 million in 2010.

Non-underlying items

Non-underlying items primarily relate to franchise point closures, start-up business costs, property disposals and pension costs. They are summarised as follows:

Non-underlying items	**2010** **£m**	**2009** **£m**
Closed business and redundancy costs	(8.5)	(10.7)
Start-up business costs	(2.8)	-
Goodwill impairment	-	(0.8)
Property impairment and net profit/loss on disposal	(0.6)	(0.1)
Net loss on refinancing	-	(9.6)
Pension net finance charge	(2.3)	(3.8)
VAT provision movement	-	16.2
Total	**(14.2)**	**(8.8)**

Total non-underlying costs before tax were £14.2 million for 2010 (2009: £8.8 million). The Group incurred costs in the start-up of the 'Quicks' branded used car and aftersales supermarkets during 2010.

The start-up costs and operating losses amounted to £2.8 million. This new venture will target our two most profitable areas of the Group – aftersales and used. The Quicks operation is at an early stage with only four sites operational before 31 December 2010. The Group intends to open three additional Quicks sites this year and expects the Quicks sites will be profitable in 2011. The Group incurred £6.6 million of losses on closed businesses arising from the date of announcement to close and £1.9 million of redundancy costs during 2010. There is a net impairment in respect of property of £0.9 million and profits on disposal of fixed assets of £0.3 million.

Net Debt

Our net borrowings as at 31 December 2010 were £325.5 million compared to £315.4 million at the end of 2009. This debt level is higher than planned with two main factors contributing to this increase – the realignment of target used car stock levels and the increase in stocks of new vehicles held to satisfy orders for vehicles prior to the VAT rate increase immediately after the year end. The Group had considerable success in the increase of used car sales during the year with like for like volume up 12.1% against a market that was flat. Towards the end of the year in particular a strategic decision was taken to invest in additional used car stock. This strategic decision was justified by a 33% like for like increase in used car volume in January 2011 compared with the previous year. We are experiencing appetite for some increase in providers' vehicle based funding and anticipate reducing the debt impact of increased used vehicle stock during 2011. The increase in VAT on 4 January 2011 necessitated the Group paying for new vehicles ordered prior to the year end, to ensure delivery to customers who purchased at the old VAT rate but took delivery in the first three days of 2010 when the banks were closed. This temporary increase in debt reversed in January.

Dividend

No interim dividend was paid during the year and no final dividend is proposed. No dividends were paid in 2009. The current Debt:Underlying EBITDA ratio means that a dividend is not appropriate at this stage. However, the Group continues to focus on the conservation of cash and reduction of borrowings with the intention of achieving our long-term target of Debt:Underlying EBITDA of 2.0:1.0.

Strategy

Pendragon is the largest independent operator of franchised motor vehicle dealerships in the UK. The Group now operates 245 franchise points (2009: 276), of which nine are in California. 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 system markets.

Our strategy is to have a diversified portfolio of franchises representing both volume and luxury brands. These are sold through the Evans Halshaw and Stratstone brands respectively. In conjunction with this diversified portfolio we have identified certain brands that we wish to continue to operate on a significant scale. This scale gives multiple direct benefits by being able to realise economies of scale, minimise our fixed overheads and have significant manufacturer partnerships for the benefit of both parties. Our scale gives an advantage in some further areas over smaller competitors through the Group’s shared services centre, central marketing, IT capability and purchasing. The size of the Group also drives profitable functional integration in contract hire, wholesale parts distribution and dealership management systems.

Aligned to this strategy we are constantly reviewing our franchise portfolio and representation points to evaluate the performance and return that we are achieving. In view of this, a decision to grow, close, sell or re-locate a franchise or franchise point maybe identified. This strategy has resulted in a number of closures during the last three years. If we believe the long term prospects for a particular franchise are poor then an exit of that franchise will be completed as soon as is practicable.

Within the franchise portfolio, management is focussed on maximising the returns within three key sectors reflecting their contribution to the Group: aftersales, used and new. This has been a key strategy during 2010 and will continue to be for the foreseeable future. The aftersales sector is undergoing the Group-wide roll-out of our Vehicle Health Check programme and we are conducting direct marketing on a number of service plans and initiatives. The Group continues to focus on the used sector by assessing and accrediting our used car processes. This activity and the management focus applied to it has significantly helped the Group’s performance in 2010. We will continue to reinforce these processes and initiatives during 2011.

Our markets

The UK is our principal market but we also have a small operation in California. The UK market splits into four key sectors: aftersales services, used vehicle sales, new vehicle sales and contract hire and other support businesses.

The aftersales market opportunity is dependent on the car parc and economic conditions. The size of the car parc is determined by the impact of the yearly increase of new vehicles less scrapped vehicles. The degree of net change to the car parc has been relatively stable over the last five years, other than during the government scrappage scheme which caused a reduction in the car parc to 31 million vehicles. This occurred in the period from May 2009 to July 2010. The aftersales sector is less impacted than the others by economic conditions, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons. Within the aftersales sector there are four broad areas of revenue: retail, internal work (preparation of used and new vehicles to retail standard), warranty and parts. Each of these areas offers a different opportunity for the Group and this is related to the profile of the car parc. For example, warranty and retail work is predominantly geared towards the under three year old car parc, which has fallen by 5 % and 6 % in 2009 and 2010 respectively. Like for like aftersales revenue fell by less than the impact of the smaller car parc and the associated reduction in warranty work due to the initial success of the roll-out of our aftersales initiatives. UK aftersales gross margin has improved 1.8% over the prior period. Aftersales activities remain the key area of focus, being the most profitable area for the Group.

The used vehicle sector has historically represented a market opportunity of around 7.5 million units per annum. Of this total market opportunity, around 55% is typically sold via franchised points in the UK. During the economic downturn, the 2009 used vehicle market was reduced by about 5% to 6.8 million (2008: 7.1 million). We expect the data for 2010 to show the market was flat year on year when this is published. The latest available data from Experian PLC for the nine months to September 2010 reported that the UK used vehicle market volume fell by 1.5% against the prior year. However the Group has outperformed the market with full year like for like UK used volume increasing by 12.1% over the prior period.   This performance has been helped by having a higher level of stock throughout 2010, compared to the somewhat constrained levels held in 2009 during the refinancing process. Used car prices have remained stable during the year compared to 2009 when prices were rising. The improvement in profitability has therefore primarily been driven by volume increase. The widening of both the pricing and age ranges of our used vehicles has helped us to further exploit the used car market opportunity for the Group. Furthermore, the rigorous used vehicle sales process which we have progressively implemented across the Group remains our focus in 2011 so as to maintain the exacting internal standards and financial metrics that we have set ourselves for this activity.

The new vehicle sector consists of cars and commercial vehicles. The UK new car market is divided into retail and fleet markets. In each of the last three years the retail market represented just less than half of the total market and it operates at lower volume and higher margin compared to the fleet market. Fleet business is transacted at a higher risk and consumes higher working capital. Accordingly, the Group is highly selective about the business conducted. Prior to the downturn in 2008 the UK new car market was approximately 2.4 million. In the last three years, registrations have averaged over 2.0 million vehicles. During the twelve months to December 2010 UK new car registrations grew marginally, by 1.8%, to 2,031,000 units. The government sponsored scrappage scheme contributed 108,000 registration units in 2010 and 285,000 in 2009. The underlying new car market grew by 12.5% excluding the impact of scrappage. For the brands we represent, total car registrations grew by 3.1% and the Group's like for like new car volume increased by 1.0%. Removing the impact of scrappage, underlying car registrations for the brands we represent grew by 12.9% and the Group's underlying like for like new car volume grew by 14.5%. However, over half the total market registrations are derived from fleet and business activity. The Group reduced fleet activity by 4,097 units in 2010 compared to 2009.

The UK new car retail market, which is the primary focus for Group new car activity, fell by 5.6% in 2010. However, removing scrappage units, underlying retail car registrations increased by 16.7%. In contrast, for the brands we represent, new car retail registrations nationally fell by 3.7% and underlying retail registrations increased by 17.5%. The Group increased new car retail volume by 6.7% and underlying new car retail volume increased by 17.3%. In the UK Pendragon sold 101,000 total new vehicles which equates to 5.0% of the total market (2009: 5.3%). The Group sold 77,000 new retail vehicles which equates to 8.0% of the retail market (2009: 7.3%).

The UK commercial vehicle market, consisting of vans and trucks, had a market size of 257,000 new units in 2010 which was up 16.4% on 2009. The truck market declined modestly year on year so the increase in commercial registrations is entirely attributable to the van sector which represented 223,000 units in 2010. The Group's commercial vehicle volume like for like increased by 5.2% reflecting our strategy not to participate in lower margin higher risk fleet van business.

The Group has a small representation in California for Aston Martin, Jaguar and Land Rover new and used vehicles and aftersales. The USA car market was 11.6 million in 2010, a rise of 11.1% over 2009. As in the UK, Jaguar and Land Rover has performed particularly strongly which has driven profitability for the California business forward in 2010.

The Group also operates in certain ancillary markets. We operate a contract hire and leasing 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 remained at normal levels, reflecting the stabilisation of the used car market.

In the UK, the market for dealer management software systems is served by three main suppliers and the market opportunity is determined by the number of franchise points. We operate extensively in the UK utilising the 'Pinewood Technologies' brand and continue to grow revenue and profitability for the Group. In 2010, further sales were achieved in South Africa which is a new market opportunity for the Group.

Operational Review

The Group is divided operationally into eight distinct trading segments. The core vehicle retail businesses consist of two segments, Stratstone and Evans Halshaw, together with our Chatfields truck business and California. Support businesses consist of the following segments: Leasing, Quicko, Pinewood and Central.

During the year the Group closed or sold 25 franchise points which had combined operating losses and closure costs of £6.6 million. When deciding upon franchise point 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 franchise points and the costs of closure, which will primarily be stock disposal, redundancy and property costs.

We have reduced job roles by 229 on a like for like basis through on-going redundancy exercises to maintain appropriate headcount levels, and through closed businesses by 422. During the year, 129 roles have been added for new businesses relating to Quicks activities. We continue to monitor the scale and mix of our human resource to ensure that suitable resource is in place for existing and future activity levels. The redundancy cost was £1.9 million in 2010 (2009: £2.1 million).

Underlying revenue and operating profit by division for the twelve months ended 31 December is shown below:

Underlying	**2010**		**2009**	
	Revenue £m	**Operating profit £m**	**Revenue £m**	**Operating profit £m**
Stratstone	1,317.7	29.2	1,149.1	18.6
Evans Halshaw	1,902.9	20.6	1,709.8	14.2
Chatfields	75.0	1.4	107.6	1.2
California	159.5	5.8	139.7	1.3
Support businesses	79.2	18.1	66.5	18.1

Underlying gross profit and gross margin by division for the twelve months ended 31 December is shown below:

Underlying	2010		2009	
	Gross Profit £m	Gross Margin %	Gross Profit £m	Gross Margin %
Stratstone	178.1	13.5%	170.9	14.9%
Evans Halshaw	240.3	12.6%	237.5	13.9%
Chatfields	13.6	18.2%	18.3	17.0%
California	27.7	17.4%	25.1	18.0%
Support businesses	36.8	46.5%	37.4	56.5%

The underlying motor retail business is analysed by department as follows:

Underlying	2010			2009		
	Revenue £m	Gross profit £m	Gross margin %	Revenue £m	Gross profit £m	Gross margin %
Aftersales	354.7	202.3	57.1%	391.3	216.2	55.3%
Used	1,189.1	124.7	10.5%	962.8	117.9	12.2%
New	1,678.7	132.6	7.9%	1,558.2	118.6	7.6%
Trade/wholesale	232.6	0.1	0.1%	193.9	(0.9)	(0.5)%

Motor retail business

Stratstone is the UK's leading prestige motor car retailer, with 98 franchise points. Each location sells new and used vehicles and undertakes aftersales service and parts sales. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Porsche, SAAB and Smart. Stratstone also holds four motorcycle franchises.

The luxury automotive sector was the first to enter the recession but was also the first to recover and has performed strongly in 2010. In particular, our Jaguar and Land Rover franchise points have performed strongly in 2010 and contributed to the improvement in profitability in the division. Underlying operating profit has increased by 57% which is due to strong leverage as operating costs have remained flat year on year.

The underlying summary results for the twelve months of the year ended 31 December are as follows:

Underlying	**Revenue £m**	**Gross profit £m**	**Gross margin %**	**Operating profit £m**	**Operating margin %**	**Total units sold '000**	**Gross profit per unit £**
Existing	1,262.9	171.1	13.6%	29.1	2.3%	44.6	
Disposed	54.8	7.0	12.8%	0.1	0.1%	2.3	
TOTAL 2010	**1,317.7**	**178.1**	**13.5%**	**29.2**	**2.2%**	**46.9**	**2,183**
TOTAL 2009	1,149.1	170.9	14.9%	18.6	1.6%	46.0	1,907

The underlying results by department for the twelve months of the year ended 31 December are as follows:

Underlying	**2010**			**2009**		
	Revenue £m	**Gross profit £m**	**Gross margin %**	**Revenue £m**	**Gross profit £m**	**Gross margin %**
Aftersales	127.6	75.9	59.4%	140.2	83.1	59.2%
Used	533.4	45.5	8.5%	443.1	40.6	9.2%
New	606.7	56.0	9.2%	518.8	47.1	9.1%
Trade/wholesale	50.0	0.7	1.4%	47.0	0.1	0.3%
TOTAL	1,317.7	178.1	13.5%	1,149.1	170.9	14.9%

Revenue increased by 14.7% which was largely due to increases in used and new department turnover. Aftersales revenue reduced on the prior year by 8.9% but the reduction in revenue is wholly attributable to businesses that have closed in the year. Like for like revenue and gross profit in aftersales is flat which is an excellent result given a 7% reduction in the less than three-year old car parc within the Stratstone brands in the last two years. Used volume increased by 1.6% against the prior year and on a like for like basis used volume has increased significantly, by 12.6%. Used margin has fallen slightly year on year as a result of used car prices being stable this year compared to 2009 when prices were rising. Overall the volume increase has outweighed the margin reduction resulting in a gross profit increase of £4.9 million year on year from used cars. The very strong underlying used performance is an output of activities that we began in the Group three years ago and we intend to build further from this position in 2011.

For the brands we represent, total national new car registrations increased by 3.3% and retail new car registrations decreased by 3.7%. In contrast, Stratstone increased total new car volume like for like by 14.1% and retail new car sales like for like by 9.3%. A significant proportion of the new volume and margin improvement in the year has been due to the Land Rover franchise which continues to perform strongly.

Evans Halshaw is the UK's leading volume motor car retailer, with 130 franchise points. Evans Halshaw holds franchises to sell and service Chevrolet, Citroen, Fiat, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall.

The volume sector has recovered more slowly than the prestige sector but used volume improvements have been significant in 2010 for Evans Halshaw. Evans Halshaw's underlying operating profit has increased by nearly 45% in the year with a similar leverage impact to that of Stratstone. The government scrappage scheme was a significant factor in the second half of 2009 and in the first half of 2010 within the volume new vehicle sector.

The underlying summary results for the twelve months of the year ended 31 December are as follows:

Underlying	Revenue £m	Gross profit £m	Gross margin %	Operating profit £m	Operating margin %	Total units sold '000	Gross profit per unit £
Existing	1,902.9	240.3	12.6%	20.6	1.1%	168.9	
Disposed	-	-	-	-	-	-	
TOTAL 2010	**1,902.9**	**240.3**	**12.6%**	**20.6**	**1.1%**	**168.9**	**817**
TOTAL 2009	1,709.8	237.5	13.9%	14.2	0.8%	162.9	815

The underlying results by department for the twelve months of the year ended 31 December are as follows:

Underlying	2010			2009		
	Revenue £m	Gross profit £m	Gross margin %	Revenue £m	Gross profit £m	Gross margin %
Aftersales	173.1	102.3	59.1%	185.0	104.7	56.6%
Used	618.5	75.9	12.3%	488.3	74.7	15.3%
New	938.5	62.7	6.7%	894.2	59.2	6.6%
Trade/wholesale	172.8	(0.6)	(0.4%)	142.3	(1.1)	(0.7%)
TOTAL	1,902.9	240.3	12.6%	1,709.8	237.5	13.9%

It is estimated that the under three-year-old car parc for the major brands we represent in Evans Halshaw has fallen by 5%. Together with the reduction in the car parc, warranty work levels have fallen, but this has been offset by the initial success of our aftersales initiatives resulting in aftersales revenue only falling by 6.4%. Used volume increased by 11.1% against the prior year and on a like for like basis used volume has increased by 12.2% which is a significant improvement. Used margin has fallen slightly, reflecting the very strong margins in 2009 when used car prices recovered strongly. Overall gross profit increased, reflecting the higher used volumes. Similarly to Stratstone, this improvement in performance is attributable to a number of Group activities that we started three years ago which will gain further momentum in 2011.

For the brands we represent, total new car registrations nationally increased by 3.1% and retail new car registrations decreased by 3.7%. Removing the impact of scrappage, underlying total new car registrations increased by 14.8% and underlying retail new car registrations increased by 25.8%. Evans Halshaw like for like total new car volume was down 1.9% due to reduced fleet activity and like for like retail new car sales increased by 5.9%, with underlying total new car volume up 11.1% and underlying retail new car volume up by 17.4%.

Chatfields is our commercial vans and trucks retailer with eight franchise points. Chatfields holds franchises to retail and/or service DAF, Iveco, LDV and Renault. The overall results are impacted by the closure of our Iveco sales franchise points in the first half of 2010. Operating profit for the segment has moved forward by £0.2m in the year. Like for like aftersales revenues and gross profit are flat year on year excluding the impact of the closed franchise points in the year. The combined new and used gross profit per unit has increased from £1,378 to £1,659 in the current year. Overall gross margin has increased year on year to 18.2% from 17.0% in 2009 which is in part a result of the rationalisation of the segment that occurred in the first half of 2010.

Underlying	**Revenue**	**Gross profit**	**Gross margin**	**Operating profit**	**Operating margin**	**Total units sold**	**Gross profit per unit**
	£m	**£m**	**%**	**£m**	**%**	**'000**	**£**
TOTAL 2010	**75.0**	**13.6**	**18.2%**	**1.4**	**1.8%**	**1.4**	**1,659**
TOTAL 2009	107.6	18.3	17.0%	1.2	1.1%	2.5	1,378

The underlying results by department for the twelve months of the year ended 31 December are as follows:

Underlying	2010			2009		
	Revenue £m	Gross profit £m	Gross margin %	Revenue £m	Gross profit £m	Gross margin %
Aftersales	29.7	11.3	38.1%	39.7	14.8	37.2%
Used	5.3	0.4	8.2%	6.9	0.5	7.5%
New	36.1	1.8	4.9%	58.7	3.0	5.1%
Trade/wholesale	3.9	0.1	2.0%	2.3	(0.0)	(0.2%)
TOTAL	75.0	13.6	18.2%	107.6	18.3	17.0%

California consists of nine franchise points in Southern California which operate Aston Martin, Jaguar and Land Rover brands. Turnover increased by 14.2% over 2009, largely as a result of new and used vehicle sales. The used sector has benefited from the Group's used car initiatives and volume has increased by 10.9%. Overall, gross profit increased by £2.6 million and operating profit by £4.5 million versus 2009 due to the strong used and new performance. Similarly to the UK, the Jaguar and Land Rover brands have been particularly strong in California.

Underlying	Revenue £m	Gross profit £m	Gross margin %	Operating profit £m	Operating margin %	Total units sold '000	Gross profit per unit £
TOTAL 2010	**159.5**	**27.7**	**17.4%**	**5.8**	**3.7%**	**3.5**	**4,221**
TOTAL 2009	139.7	25.1	18.0%	1.3	1.0%	3.4	3,337

The underlying results by department for the twelve months of the year ended 31 December are as follows:

Underlying	2010			2009		
	Revenue £m	Gross profit £m	Gross margin %	Revenue £m	Gross profit £m	Gross margin %
Aftersales	24.3	12.9	53.1%	26.4	13.8	52.2%
Used	31.9	2.8	8.8%	24.5	2.1	8.5%
New	97.4	12.1	12.4%	86.5	9.3	10.8%
Trade/wholesale	5.9	(0.1)	(1.0%)	2.3	(0.1)	(1.8%)
TOTAL	159.5	27.7	17.4%	139.7	25.1	18.0%

Support businesses

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

Leasing and contract hire 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 has reduced from 13.6 thousand units in 2009 to 10.1 thousand units in 2010. This reduction in fleet size was due to the lower level of new vehicle contracts that were available in the market place given the broader economic conditions. However, the stabilisation of used vehicle prices resulted in only a small reduction in the segment’s operating profit to £7.5 million, down from £8.0 million in the prior year. The underlying results for the twelve months ended 31 December are shown below:

Underlying	Revenue £m	Gross profit £m	Gross margin %	Operating profit £m	Operating margin %	Fleet Size '000
TOTAL 2010	**44.9**	**9.9**	**22.1%**	**7.5**	**16.7%**	**10.1**
TOTAL 2009	54.4	10.8	19.9%	8.0	14.8%	13.6

Quickco is our independent parts wholesale business serving franchise points and wholesale 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 same day and next day service. The underlying results for the twelve months ended 31 December are shown below:

Underlying	Revenue £m	Gross profit £m	Gross margin %	Operating profit £m	Operating margin %
TOTAL 2010	**61.9**	**14.4**	**23.3%**	**1.5**	**2.4%**
TOTAL 2009	67.9	15.4	22.6%	1.7	2.6%

Pinewood Technologies, one of three main Dealer Management System ('DMS') suppliers in the UK, continues to grow year on year. Pinewood has pioneered the delivery of Software as a Service ('SaaS') in the motor industry. Pinewood's main product is 'Pinnacle', a web browser based DMS providing a management reporting suite for motor retailers. The underlying results for the twelve months ended 31 December are shown below:

Underlying	Revenue £m	Gross profit £m	Gross margin %	Operating profit £m	Operating margin %
TOTAL 2010	**23.8**	**16.1**	**67.8%**	**9.1**	**38.4%**
TOTAL 2009	21.2	14.9	70.2%	8.4	39.7%

Pinewood has further developed the integrated Electronic Vehicle Health Check module which has been implemented within the Stratstone and Evans Halshaw divisions. Pinewood has further increased revenue from South Africa following the appointment of a reseller in the region.

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 franchise points, we have a number of vacant property assets which are held for sale. At 31 December 2010 we held £177.1 million of property assets on the balance sheet as well as £25.1 million of properties held for sale.

In 2010 we disposed of five freehold properties which were operationally surplus to requirements. This resulted in proceeds of £4.1 million and profit of £0.3 million.

Regarding our investment in our joint venture property company, the value of this investment continues to be fully impaired. The joint venture was restructured during the year but further conditions must be satisfied before its banking covenants can be reset. 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 rent.

Cash flow

The cash flows of the business are summarised as follows:

Summary cash flow	**2010 £m**	**2009 £m**
Underlying operating profit	**75.1**	**53.4**
Depreciation and amortisation	40.0	47.8
Non-underlying cashflow	(11.3)	(10.7)
Underlying working capital movement	(59.6)	2.3
Other items	0.6	0.5

Cash generated from operations	**44.8**	**93.3**
Net interest paid	(36.9)	(46.4)
Tax (paid) / received	(1.4)	2.3
Replacement capital expenditure	(13.3)	(15.1)
Free cash flow	**(6.8)**	**34.1**
Acquisitions	(6.5)	(4.0)
Disposals	9.0	6.2
Other	(5.8)	5.6
(Increase) / reduction in net debt	**(10.1)**	**41.9**

Cash flow generated from operations was £44.8 million, which compares with £93.3 million generated in 2009. Underlying operating profit has increased by £21.7 million but net debt has increased by 3% primarily due to the strategic decision to increase inventory and thus working capital requirements. The working capital cash outflow is stated after £15.8 million cash payments made to reduce the deficit in our pension schemes (2009: £12.7 million).

Non-underlying cash outflows, principally comprising costs related to redundancies, closed franchise points and start-up businesses, were £11.3 million.

There has been a £9.5 million reduction year on year in net interest paid reflecting the cash outflow in 2009 relating to the refinancing completed in April 2009. Taxation paid in the year amounted to £1.4 million.

Replacement capital expenditure was £13.3 million, which includes plant and machinery, fixtures and fittings and motor vehicles (2009: £15.1 million). Expenditure on plant and machinery and fixtures and fittings was £6.8 million (2009: £2.5 million). The balance of the expenditure of £6.5 million (2009 £12.6 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 £4.9 million in 2010 (2009: £0.6 million) with nil profit on sale. Surplus property disposals raised £4.1 million (2009: £5.6 million).

The Group continues to operate comfortably within its banking covenants.

Year end financing and capital management

The Group views its financial capital resources as primarily comprising share capital, loan notes, bank loans, vehicle stocking credit lines and operating cashflow.

The Group is also responsible for funding the pension deficit and thus the total financial resources required by the Group to fund itself at 31 December comprises:

	2010 £m	**2009 £m**
Bank	323.0	310.6
Finance leases	2.5	4.8
Net debt	**325.5**	**315.4**
Stock finance	128.8	126.2
Manufacturer finance arm	338.5	295.3
Pension deficit	69.7	81.8
Total funding	**862.5**	**818.7**

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 to the Group's shareholders. The Group's key measure of return to shareholders is underlying earnings per share. The Group's strategy will be to maintain facilities appropriate to the working capital requirements of the Group whilst reducing debt towards a long-term Debt:Underlying EBITDA target of 2.0:1.0.

The majority of the Group's borrowing facilities expire on 30 April 2012. The Group has begun preliminary discussions on the renewal of the facilities. The expectation is that the facilities will be renewed during 2011.

VAT

At 31 December 2010 the Group has made a provision of £5.5 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 Group continues to discuss the issue with HM Revenue and Customs. During the year £5.1m has been settled in respect of these assessments.

Outlook

After strong progress in 2010, we expect to make further performance enhancements in our aftersales and used sectors during 2011 with our key aftersales and used car processes and initiatives. We expect the new prestige sector to continue to perform well in 2011 with the new volume sector facing some turbulence alongside the general economy. The year has started strongly with all areas of the business, aftersales, used cars and new cars, ahead on a like for like basis. Our used car initiatives, boosted by increased stock over the Christmas period, continue to gain momentum with January volumes up 33% on a like for like basis. We look forward to continuing this positive momentum during 2011.

TREVOR FINN
CHIEF EXECUTIVE
22 February 2011

Consolidated Income Statement

Year ended 31 December 2010

	Underlying	Non-underlying	**2010**	Underlying	Non-underlying	2009
	£m	£m	**£m**	£m	£m	£m
Revenue	3,534.3	40.7	**3,575.0**	3,172.7	19.0	**3,191.7**
Cost of sales	(3,037.8)	(37.8)	**(3,075.6)**	(2,683.5)	(16.1)	**(2,699.6)**
Gross profit	496.5	2.9	**499.4**	489.2	2.9	**492.1**
Operating expenses	(421.4)	(15.1)	**(436.5)**	(435.8)	(0.7)	**(436.5)**
Operating profit before other income	75.1	(12.2)	**62.9**	53.4	2.2	**55.6**
Other income – gains on the sale of businesses and property	-	0.3	**0.3**	-	1.1	**1.1**
Operating profit	75.1	(11.9)	**63.2**	53.4	3.3	**56.7**
Finance expense (note 4)	(50.8)	(21.2)	**(72.0)**	(45.0)	(27.7)	**(72.7)**
Finance income (note 5)	0.9	18.9	**19.8**	1.7	15.6	**17.3**
Net finance costs	(49.9)	(2.3)	**(52.2)**	(43.3)	(12.1)	**(55.4)**
Profit before taxation	25.2	(14.2)	**11.0**	10.1	(8.8)	**1.3**
Income tax (expense) / credit (note 7)	(9.1)	3.7	**(5.4)**	(2.9)	2.4	**(0.5)**
Profit for the year attributable to shareholders of the parent	16.1	(10.5)	**5.6**	7.2	(6.4)	**0.8**
Earnings per share (note 3)						
Basic earnings per share			**0.9p**			**0.1p**
Diluted earnings per share			**0.8p**			**0.1p**

	2010	2009
Non GAAP measure (note 3)		
Underlying basic earnings per share	2.5p	1.1p
Underlying diluted earnings per share	2.4p	1.1p

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 £m	2009 £m
Profit for the year	**5.6**	0.8
Other comprehensive income:		
Foreign currency translation differences of foreign operations	**0.1**	1.1
Defined benefit plan actuarial gains and losses	**19.9**	(28.2)
Income tax relating to defined benefit plan actuarial gains and losses	**(5.6)**	7.9
Adjustment in respect of minimum funding requirement on defined benefit plans	**(21.3)**	2.9
Income tax relating to adjustment in respect of minimum funding requirement on defined benefit plans	**6.0**	(0.8)
Other comprehensive income for the year, net of tax	**(0.9)**	(17.1)
Total comprehensive income for the year attributable to the shareholders of the parent	**4.7**	(16.3)

Consolidated 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 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 attributable to the shareholders of the parent	-	-	-	-	1.1	(17.4)	**(16.3)**
Issue of ordinary shares	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**
Balance at 1 January 2010	33.1	56.8	2.5	12.6	(0.6)	1.5	**105.9**
Total comprehensive income for 2010							
Profit for the year	-	-	-	-	-	5.6	**5.6**
Other comprehensive income for the year, net of tax	-	-	-	-	0.1	(1.0)	**(0.9)**
Total comprehensive income for the year attributable to the shareholders of the parent	-	-	-	-	0.1	4.6	**4.7**
Issue of ordinary shares	0.3	-	-	-	-	(0.3)	-
Share based payments	-	-	-	-	-	0.6	**0.6**
Balance at 31 December 2010	33.4	56.8	2.5	12.6	(0.5)	6.4	**111.2**

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).

The profit included in retained earnings for 2010 of £4.6m represents a profit attributable to owners of the parent of £5.6m and actuarial gains and minimum funding adjustments on defined benefit pension plans of £1.0m (£1.4m less tax £0.4m).

Consolidated Balance Sheet

At 31 December 2010

	2010 £m	2009 £m
Non-current assets		
Property, plant and equipment	**284.5**	307.8
Goodwill	**367.7**	371.4
Other intangible assets	**3.5**	3.1
Derivative financial instruments	**27.0**	23.3
Deferred tax assets	**0.1**	3.5
Total non-current assets	**682.8**	709.1
Current assets		
Inventories	**492.8**	445.2
Trade and other receivables	**110.2**	107.4
Cash and cash equivalents	**91.2**	86.8
Non-current assets classified as held for sale	**25.1**	26.6
Total current assets	**719.3**	666.0
Total assets	**1,402.1**	1,375.1
Current liabilities		
Interest bearing loans and borrowings	**(67.4)**	(66.9)
Trade and other payables	**(714.4)**	(691.6)
Deferred income	**(0.1)**	-
Current tax payable	**(25.0)**	(24.8)
Provisions	**(10.9)**	(17.8)
Total current liabilities	**(817.8)**	(801.1)
Non-current liabilities		
Interest bearing loans and borrowings	**(376.3)**	(358.6)
Deferred income	**(18.9)**	(19.8)
Retirement benefit obligations	**(69.7)**	(81.8)
Provisions	**(8.2)**	(7.9)
Total non-current liabilities	**(473.1)**	(468.1)
Total liabilities	**(1,290.9)**	(1,269.2)
Net assets	**111.2**	105.9
Capital and reserves		
Called up share capital	**33.4**	33.1
Share premium account	**56.8**	56.8
Capital redemption reserve	**2.5**	2.5
Other reserves	**12.6**	12.6
Translation reserve	**(0.5)**	(0.6)
Retained earnings	**6.4**	1.5
Total equity attributable to equity shareholders of the Company	**111.2**	105.9

Registered Company Number: 2304195

Consolidated Cash Flow Statement

Year ended 31 December 2010

	2010 **£m**	2009 £m
Cash flows from operating activities		
Profit for the year	**5.6**	0.8
Adjustment for taxation	**5.4**	0.5
Adjustment for net financing expense	**52.2**	55.4
	63.2	56.7
Depreciation and amortisation	**40.0**	47.8
Share based payments	**0.6**	0.5
Profit on sale of businesses and property	**(0.3)**	(1.1)
Impairment of property, plant and equipment	**-**	0.8
Impairment of assets held for sale	**0.9**	1.4
Reversal of impairment of assets held for sale	**-**	(1.0)
Goodwill impairment	**-**	0.8
Changes in inventories	**(41.1)**	149.1
Changes in trade and other receivables	**(3.1)**	28.0
Changes in trade and other payables	**1.9**	(162.7)
Changes in retirement benefit obligations	**(15.8)**	(12.7)
Changes in provisions	**(1.5)**	(14.3)
Cash generated from operations	**44.8**	93.3
Taxation (paid) / refunds received	**(1.4)**	2.3
Interest received	**0.9**	0.9
Interest paid	**(37.8)**	(47.3)
Net cash from operating activities	**6.5**	49.2
Cash flows from investing activities		
Proceeds from sale of businesses	**4.9**	0.6
Purchase of property, plant, equipment and intangible assets	**(99.3)**	(103.8)
Proceeds from sale of property, plant and equipment	**83.6**	90.3
Net cash used in investing activities	**(10.8)**	(12.9)
Cash flows from financing activities		
Payment of capital element of finance lease rentals	**(2.3)**	(3.1)
Repayment of bank loans	**(40.0)**	(88.8)
Proceeds from issue of loans	**50.0**	-
Payment of transaction costs related to loans and borrowings	**-**	(8.1)
Net cash inflow / (outflow) from financing activities	**7.7**	(100.0)
Effects of exchange rate changes on cash held	**1.0**	(4.1)
Net increase / (decrease) in cash and cash equivalents	**4.4**	(67.8)
Cash and cash equivalents at 1 January	**86.8**	154.6
Cash and cash equivalents at 31 December	**91.2**	86.8

Notes to the Financial Statements

1. Basis of preparation

The Group summary financial statements have been prepared and approved by the directors in accordance with international accounting standards, being the International Financial Reporting Standards as adopted by the EU ("adopted IFRSs").

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

The summary 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.

The majority of the Group's borrowing facilities expire on 30 April 2012. The Group has begun preliminary discussions on renewal of these facilities. At this stage, the expectation is that the facilities will be renewed in 2011. 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 summary 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 summary 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.

Non-underlying items are presented in the consolidated income statement being 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.

2. Non-underlying items

	2010 £m	2009 £m
Within Turnover		
Turnover from closed businesses	**26.0**	19.0
Turnover from start up businesses	**14.7**	-
	40.7	19.0
Within cost of sales		
Cost of sales of closed businesses	**(23.7)**	(16.1)
Cost of sales of start up businesses	**(14.1)**	-
	(37.8)	(16.1)
Within operating expenses:		
Operating expenses and closure costs incurred on closed businesses	**(8.9)**	(11.5)
Operating expenses incurred in start up businesses	**(3.4)**	-
Goodwill impairment	-	(0.8)
Impairment of property, plant and equipment	-	(0.8)
Impairment of assets held for sale	**(0.9)**	(1.4)
Reversal of impairment on assets de-classified as held for sale	-	1.3
Depreciation adjustment on assets de-classified as held for sale	-	(0.3)
Redundancy costs	**(1.9)**	(2.1)
Professional fees	-	(1.3)

VAT assessment provision	-	16.2
	(15.1)	(0.7)

Within other income – gains on the sale of businesses and property:		
Gains on the sale of businesses	**-**	0.1
Gains on the sale of property	**0.3**	1.0
	0.3	1.1

Within finance expense:		
Interest on pension scheme obligations	**(21.2)**	(19.4)
Net loss on refinancing	-	(8.3)
	(21.2)	(27.7)
Within finance income:		
Interest on pension scheme assets	**18.9**	15.6

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

No goodwill was impaired during the year (2009 : £0.8m).

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 no impairment charge against tangible fixed assets during the year (2009 : £0.8m). A £0.9m charge was recognised against assets held for sale (2009 : £1.4m). During the previous year a release of £1.0m was also made on de-classification of assets held for sale.

Losses incurred on the closure of business amounted to £6.6m (2009 : £8.6m). These costs include wind down expenses, recognised from the date of the announcement to close, losses on assets, redundancy and vacant property occupancy costs.

During the year the Group set up a new business of Used Car Supermarkets operating under the Quicks brand. During the year the initial costs and subsequent trading losses incurred as the Group develops and promotes the brand amounted to £2.8m which is presented as non-underlying.

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 £1.9m (2009 : £1.7m). In addition, during the previous year, 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.

In the previous year, 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.

In 2009 a provision in respect of the VAT treatment of partial exemption within our finance and insurance operations of £16.2m was released.

The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility of this amount. A net cost of £2.3m has been incurred during the year (2009 : £3.8m).

Other income, being the profit on disposal of businesses and property, comprises a £0.3m profit on sale of properties (2009 : £1.0m). There was no profit recorded on the disposal of motor vehicle dealerships (2009 : £0.1m).

During the previous year, upon the successful completion of the refinancing of the Group a net loss of £8.3m was recorded. This comprised refinancing related costs of £22.7m and a fair value gain on the inception of the loan of £14.4m.

3. **Earnings per share**

	2010 Earnings per share pence	**2010 Earnings Total £m**	2009 Earnings per Share Pence	2009 Earnings Total £m
Basic earnings per share	**0.9**	**5.6**	0.1	0.8
Adjusting items:				
Goodwill impairment	**-**	**-**	0.1	0.8
Impairment of property, plant and equipment	**-**	**-**	0.1	0.8
Impairment of assets held for sale	**0.1**	**0.9**	0.2	1.4
Reversal of impairment and depreciation adjustment on assets de-classified as held for sale	**-**	**-**	(0.2)	(1.0)
Losses incurred on closed businesses	**1.0**	**6.6**	1.4	8.6
Start up costs and losses incurred on start up of business	**0.4**	**2.8**	-	-
Redundancy costs	**0.3**	**1.9**	0.3	2.1
Profit on business and property disposals	**-**	**(0.3)**	(0.2)	(1.1)
Net loss on refinancing	**-**	-	1.4	8.3
Professional fees	**-**	-	0.2	1.3
Net interest on pension schemes	**0.4**	**2.3**	0.6	3.8
VAT assessment provision	**-**	**-**	(2.5)	(16.2)
Tax effect of adjusting items	**(0.6)**	**(3.7)**	(0.4)	(2.4)
Underlying earnings per share (Non GAAP measure)	**2.5**	**16.1**	1.1	7.2
Diluted earnings per share	**0.8**	**5.6**	0.1	0.8
Diluted earnings per share- adjusted (Non GAAP measure)	**2.4**	**16.1**	1.1	7.2

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

	2010 Number	2009 Number
Weighted average number of ordinary shares in issue	**644.4**	639.4
Weighted average number of dilutive shares under option	**30.2**	36.8
Weighted average number of shares in issue taking account of applicable outstanding share options	**674.6**	676.2

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

There are 34.3 million shares under option (2009: 20.4 million) that are non-dilutive in accordance with IAS 33 "Earnings Per Share".

4. **Finance expense**

Recognised in profit and loss	**2010 £m**	2009 £m
Interest payable on bank borrowings and loan notes	**39.0**	31.7
Net loss on refinancing (non-underlying)	**-**	8.3
Vehicle stocking plan interest	**9.6**	10.9
Interest payable on finance leases	**0.3**	0.4
Interest on pension scheme obligations (non-underlying)	**21.2**	19.4
Less : interest capitalised	**(0.1)**	-
Total interest expense	**70.0**	70.7
Net fair value expense in respect of hedging relationships	**0.4**	-
Unwinding of discounts in contract hire residual values	**1.6**	2.0
Total finance expense	**72.0**	72.7

5. **Finance income**

	2010	2009

Recognised in profit and loss	**£m**	£m
Net fair value gain in respect of hedging relationships	**-**	0.8
Interest receivable on bank deposits	**0.9**	0.9
Interest on pension scheme assets (non-underlying)	**18.9**	15.6
Total finance income	**19.8**	17.3

6. **Net Borrowings**

	2010	2009
	£m	£m
Cash and cash equivalents	**91.2**	86.8
Current interest bearing loans and borrowings	**(67.4)**	(66.9)
Non-current interest bearing loans and borrowings	**(376.3)**	(358.6)
Derivative financial instruments	**27.0**	23.3
	(325.5)	(315.4)

7. **Tax**

The overall effective tax rate for the year was 49.1% (2009 : 38.5%).

8. **Pension Funds**

The net liability for defined benefit obligations has decreased from £81.8m at 31 December 2009 to £69.7m at 31 December 2010. The decrease of £12.1 comprises contributions of £15.8m, a net interest expense to the income statement of £2.3m, a net actuarial gain of £19.9m and a £21.3m debit adjustment in respect of the minimum funding requirement and non-recognition of surplus. The net actuarial gain has arisen due in part to changes in the principal assumptions used in the valuation of the scheme’s assets and liabilities and also the change in value of the assets held over the year. The main assumption subject to change is the discount rate of 5.4% (2009 : 5.7%).

9. **Annual report**

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2010 or 2009 but is derived from those accounts. Statutory accounts for 2009 have been delivered to the registrar of companies, and those for 2010 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Full financial statements for the year ended 31 December 2010 are published on the Groups website at www.pendragonplc.com and will be posted to shareholders and after adoption at the Annual General Meeting on 10 May 2011 they will be delivered to the registrar.

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