2011 ANNUAL REPORT PENDRAGON PLC

"THE UK'S LEADING AUTOMOTIVE RETAILER"

Pendragon | PLC

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www.pendragonplc.com


RANGE ROVER

AT A GLANCE

Pendragon at a Glance

Pendragon is the UK's leading automotive retailer with 235 worldwide franchise points.

OUR MARKETS

Pendragon's principal markets are the retailing of new and used vehicles and the service and repair of vehicles (aftersales). Pendragon also operates in the wholesale parts, leasing and dealership management system markets.

OUR BUSINESS

We operate with seven main segments: Stratstone, Evans Halshaw, Chatfields, California, Leasing, Quickco and Pinewood.

Pendragon | PLC

"The UK's Leading Automotive Retailer"

- ✔ No.1 Internet Vehicle retailer by market share via Evanshalshaw.com and Stratstone.com.
- ✔ No.1 UK vehicle retailer by location with 226 UK nationwide locations.
- ✔ Leading and innovative used car and aftersales development programmes.
- ✔ Value Pricing our key proposition in the market.
- ✔ Growing and successful California business.
- ✔ Centralised UK call centre ensuring consistent communication and execution of services.
- ✔ Comprehensive range of support and complementary business ranging from parts distribution to fleet and contract hire activities.
- ✔ In-house software company in the top 3 within the marketplace delivering dealer systems.
- ✔ Dedicated, skilled and motivated employees.

OUR BUSINESS SUMMARY

£471m
GROSS PROFIT

14%
USED CAR UNIT GROWTH

9,521
EMPLOYEES

22
WORLDWIDE BRANDS

260
RETAIL POINTS

>1MILLION
AFTERSALES TRANSACTIONS

£3.5bn
REVENUE

227,000
NEW & USED UNIT SALES

8.5m
WEBSITE HITS

KEY MARKETS

PRIMARY

NEW
Retailing a new vehicle

USED
Retailing a used vehicle

AFTERSALES
Completing service and repair

SECONDARY

IT Dealer Management Systems

Parts Wholesale

Leasing & Contract Hire

KEY BUSINESSES

Stratstone The UK's leading prestige motor car retailer with 93 franchise points including: Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Porsche and Smart.

Evans Halshaw The UK's leading volume motor car retailer with 125 franchise points including: Chevrolet, Citroen, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall.

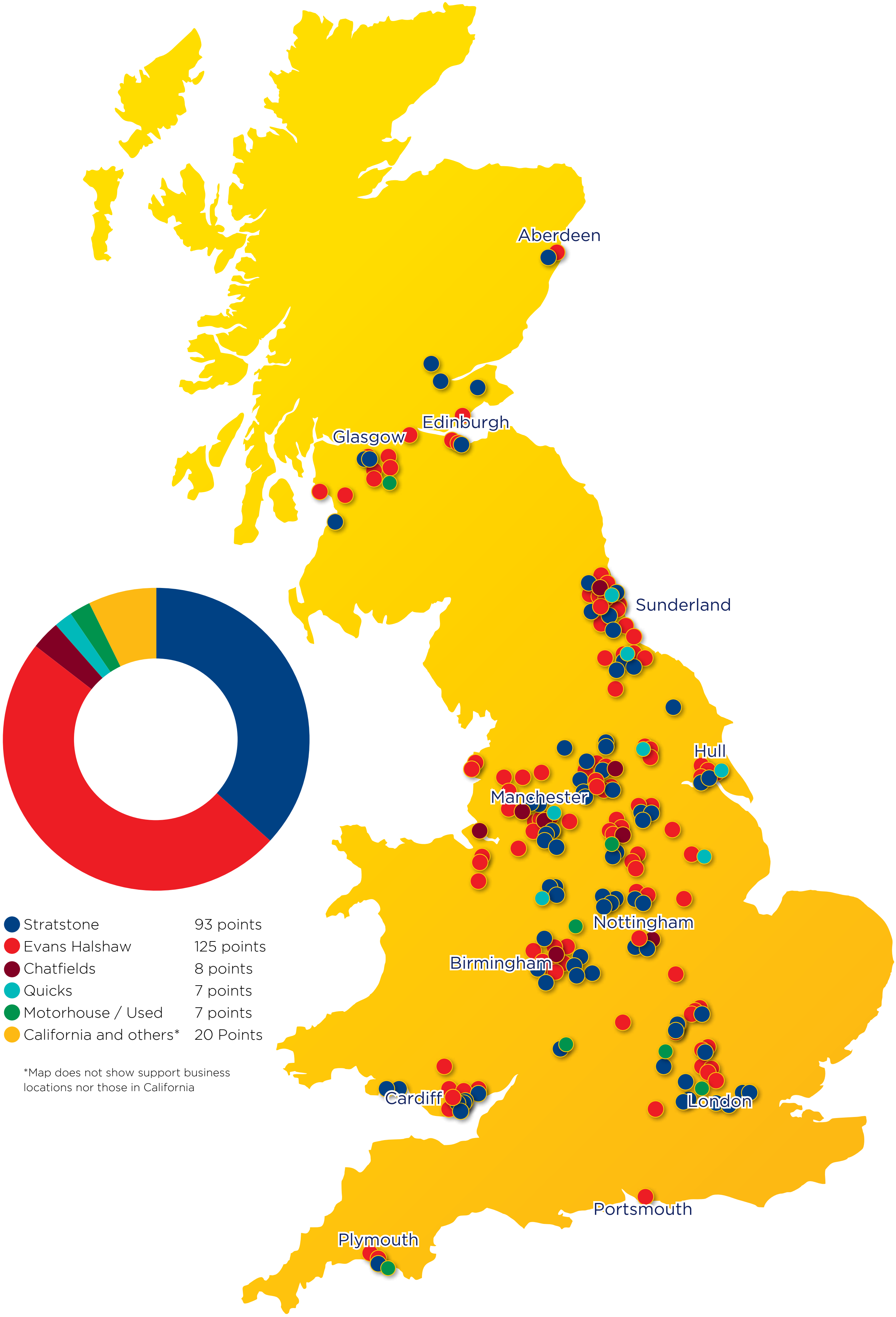
Chatfields Commercial vans and trucks retailer with eight franchise points in the UK including: DAF, Ford, Nissan and Renault.

California The prestige brands of Aston Martin, Land Rover and Jaguar with 9 franchise points in Southern California.

Leasing Fleet leasing and contract hire solutions in the UK.

Quickco Independent parts wholesale business serving internal and external customers in the UK.

Pinewood In-house software company which supplies dealer management systems in the UK and South Africa.



Stratstone	93 points
Evans Halshaw	125 points
Chatfields	8 points
Quicks	7 points
Motorhouse / Used	7 points
California and others*	20 Points

*Map does not show support business locations nor those in California

ACCOLADES

BMW DEALER OF THE YEAR

We are delighted to report that Stratstone Tyneside have been awarded the prestigious title of BMW Dealer of the Year 2011.

The accolade is testament to the hard work of every team member at the Tyneside dealership and reflects our commitment to consistently deliver an outstanding five star experience at all times.

Each part of the business was measured against the entire BMW Network on performance, targets, profitability and customer experience before a winner was decided upon.

Jonathan Inman, Dealer Principal was presented with the award by the Managing Director of BMW UK, Tim Abbott at the Award ceremony in Portugal..

MINI DEALER OF THE YEAR

We are proud to report that Stratstone Derby have been awarded the prestigious accolade of MINI Dealer of the Year.

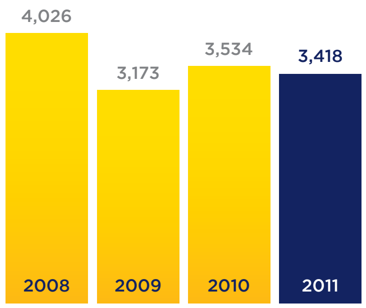
The MINI Oscars Award Ceremony is held annually to honour the best performers in the MINI UK network. The nominations and selection process is carried out by the MINI Board with each part of the business assessed against the entire network for profitability, targets and customer experience.

Sandra Domagala, Dealer Principal was presented with the award by Jochen Goller, Director of MINI UK in recognition of the outstanding contribution made by the entire team at Stratstone Derby at the Oscars ceremony held in Oxford.

FINANCIAL HIGHLIGHTS

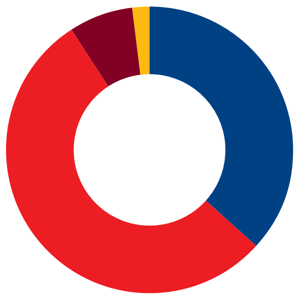
UNDERLYING REVENUE

£3,418m



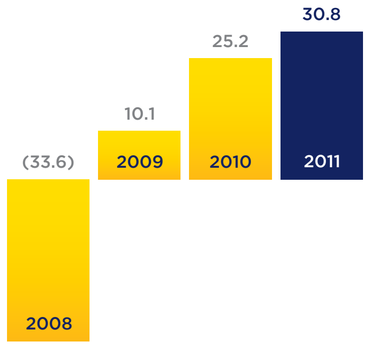
UNDERLYING REVENUE BY SEGMENT

- Stratstone £1,259m
- Evans Halshaw £1,849m
- Chatfields/California £244m
- Other £66m



UNDERLYING PROFIT BEFORE TAX

£30.8m



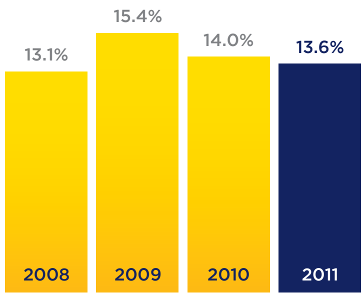
UNDERLYING OPERATING PROFIT

£74.4m

- Stratstone £27.8m
- Evans Halshaw £22.6m
- Chatfields/California £6.8m
- Support £17.2m

GROSS MARGIN

13.6%

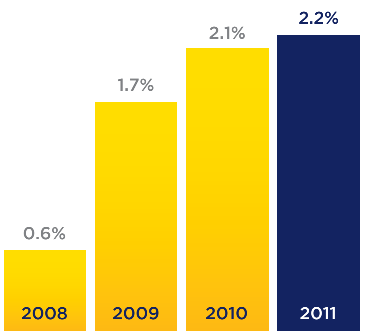


UNDERLYING GROSS PROFIT BY SECTOR

- Aftersales £194.6m
- Used £124.7m
- New & Trade / Wholesale £117.5m
- Support £31.3m

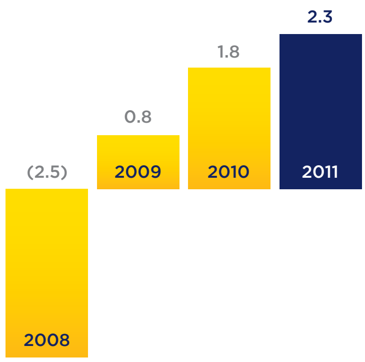
UNDERLYING OPERATING MARGIN

2.2%



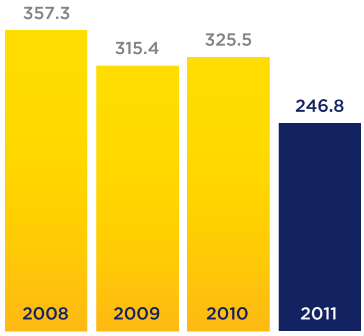
UNDERLYING EPS

2.3p



NET DEBT

£246.8m



Note: Underlying results exclude items that are unusual due to their size, nature or incidence.

CHAIRMAN'S STATEMENT

MIKE DAVIES

Overview

Despite uncertain and challenging trading conditions the Board is delighted to report strong trading performance in 2011. Our strategy of focussing firstly on aftersales, secondly on used and thirdly on new continues to assist in driving profitability and differentiating Pendragon PLC from its peers.

Our Markets

The Group has been impacted in a reduction in the vehicle car parc which varies by brand. In the UK the new car market has fallen from 2.4 million vehicles in 2007 to 1.9 million vehicles in 2011, this reduction in less than three year old vehicles represents a significant part of the aftersales opportunity for the Group. The used car market has been stable in the last year and the latest available data shows the used market was flat year on year.

Our Business

The Group is operating seven segments plus a central segment: Stratstone, Evans Halshaw, Chatfields, California, Leasing, Quickco, Pinewood. The Group will continue to be selective about disposals or acquisitions after a period of right-sizing the the group in the last three years.

Our Performance

The Group is pleased to report that our two key divisions of Stratstone and Evans Halshaw have maintained our prior year performance. The California business continues to have a successful growth story. Overall support businesses profitability was in line with the prior year. Following the refinancing in 2011, the Group has a lower debt profile and consequently operates at a lower interest charge. In 2011 the interest saving for the Group versus 2010 was £6.3 million.

Our Strategy and Progress

The Group's strategy is to focus on Aftersales, Used and then New market sectors. The Aftersales sector has become a more challenging market given the change in profile of the car parc but remains our most profitable area of the business. The Used market is the Group's primary growth opportunity for profit and we will continue to maintain our high operational standards and initiatives in order to achieve this objective. The Group understands the importance of working closely with our manufacturing partners to drive new profitability and this long-term partnership is key to our success.

Directors' Report and Boards

The directors' report can be found on pages 34 to 43. The continuity and experience of the management team remains a key strength for the Group working with our established partners.

Financial Statements

The detailed financial statements can be found on pages 67 to 139.

Outlook

Strong progress has been made by the Group in 2011 despite the turbulent economic conditions. The used sector has been a key performance highlight for the Group for the year. This will remain our key strategic area of focus and we expect this momentum to continue during 2012. Aftersales is still impacted by the reduced market opportunity in the less than three year old vehicles group, but we will continue to roll out our aftersales initiatives to assist our performance. We again expect the new prestige sector to perform well in 2012 with the new volume retail sector being more adversely impacted by economic conditions, at least in the first half of 2012. Given our recent performance, strong cost control, lower finance costs and clear strategic goals we expect to maintain our momentum into 2012.

Mike Davies
Chairman

OUR BOARD

Mike Davies (64)*
Non-executive Chairman (N) (R)
Joined as a non-executive director in 2004 and was appointed non-executive chairman of Pendragon in October 2010. Mr Davies is non-executive chairman of the Royal Mint and The Manchester Airports Group PLC. Mr Davies chairs the Company's Nomination Committee.

Malcolm Le May (54)
Non-executive Director (A) (N) (R)
Joined Pendragon on 1 March 2006. His background is in investment banking with a particular interest in commercial property. Mr Le May is also a non-executive director of RSA Insurance Group plc. Mr Le May is the senior non-executive director.

David Joyce (63)
Non-executive Director (A) (N) (R)
Joined Pendragon on 1 March 2006. He is a civil engineer and the former chief operating officer of Vinci PLC. Mr Joyce is the chair of the Company's Remuneration Committee.

Mel Egglenton (55)
Non-executive Director (A) (N) (R)
Joined Pendragon on 1 December 2010. He is a chartered accountant and former Regional Chairman of KPMG Midlands and Senior Partner of its Birmingham practice. Mr Egglenton is a non-executive director of, and advisor to, a number of private companies. Mr Egglenton is the chair of the Company's Audit Committee.

Ian Coull (61)
Non-executive Director (A) (N) (R)
Joined Pendragon on 1 December 2010. He is a chartered surveyor. Ian is the non-executive chairman of Galliford Try Plc, the construction and house-building group. He is a senior advisor to a small number of private companies and partnerships and a member of the Property Advisory Group of the Shareholder Executive of HM Treasury.

Trevor Finn (54)*
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 (51)
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 (47)
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 (51)*
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
* retiring by rotation at the AGM, proposed for re-election

Secretary
Hilary Sykes

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

Stockbrokers
Arden Partners PLC
Jefferies Hoare Govett

Auditors
KPMG Audit PLC

Solicitors
CMS Cameron McKenna LLP
Geldards LLP

Q&A WITH OUR EXECUTIVE TEAM

TREVOR FINN

Q What is your view on current economic conditions and the impact on your business?

A The economic conditions remain challenging and the uncertainty around this can have an impact on businesses and consumers. However, the Group has been operating a 'value pricing' strategy for three years now in the used car environment and more recently in the aftersales sector. In these difficult economic conditions this pricing methodology is key and has been the differentiator for the business to ensure we can maintain growth. However, I am clear that value pricing is right for the business and consumers in times of recession and recovery which I hope we will see in the latter half of this year.

Q Where do you see the business in 12 month's time?

A The Group is focussed on continuing to grow used car volume, which will be another significant achievement after three years of growth in this area. With the momentum we have with our internet presence via our Evanshalshaw.com and Stratstone.com brands, together with our rigorous internal standards that we set in the used car sector, we believe this will be the main difference to the business in next 12 months.

"Value pricing is right for the business and consumer in times of recession and recovery"

MARTIN CASHA

Q The internet has been a key ingredient for successful retailers in the UK – what are you doing to keep ahead?

A The Group has been completing a number of initiatives and investment in its internet branding and IT platforms. This ranges from streamlining our internet delivery platforms to social media involvement such as with Twitter and Facebook. We continue to look for opportunities and areas of development to stay ahead, as we believe the internet is a key strategy for the business. Our internet strategy however is underpinned by our value pricing strategy to ensure that the consumer always finds Evanshalshaw.com and Stratstone.com as the number one choice. The success we have had is illustrated by our like for like used volume increasing by 14% year on year - which is a tremendous performance. The internet provides an important touch point for all our customers and the sectors of used, aftersales and new sales. Shortly, we will be launching a web booking service, giving the customer the ability to book a service reservation directly with their dealer of choice online.

Q The Group has reduced its size in terms of dealer points in the last three years – will this continue ?

A The Group has been right-sizing in the last three years, reflecting the economic environment. This in part reflects where our manufacturer partners have been moving but also where we wish to be. We have been able to save some significant overhead costs by rationalisation of our locations where we have overlaps or have sub-optimal locations. The Group is very selective about both its closures and acquisitions. Post year end we acquired the Leeds BMW dealer point, which reflects our strong position in the industry. Tim Abbott, Managing Director, BMW Group UK, said: "Pendragon already operates BMW and MINI dealerships in the Yorkshire and Derbyshire areas. Consolidating the Leeds business within their control supports our desire for business partners who can deliver outstanding customer service.".

TIM HOLDEN

Q In 2011 you completed a refinancing of the Group – what was involved and how will this help the Group?

A The refinancing in 2011 has provided greater strength and flexibility for the future. The Group raised £75 million from a Rights Issue, extended the maturity of its banking facilities on better terms and implemented a Pension Deficit Reduction Plan. The 2011 refinancing will reduce the overall interest cost for the Group. The management of our debt remains a key area of focus for the Group and we are working towards our previously stated goal of achieving a Debt:EBITDA ratio of less than 1.5.

Q What other areas of focus will the business have in 2012?

A In line with other well managed companies and retailers throughout the world, a key activity for the business in 2012 will be our continuing focus on cost control. The Group has been successful in ensuring that we maintain and strengthen our operating costs ahead of any changes in gross margin. We believe that with strong cost management the Group can benefit from operational gearing in the future.

"The 2011 refinancing will reduce the overall interest cost for the Group"

HILARY SYKES

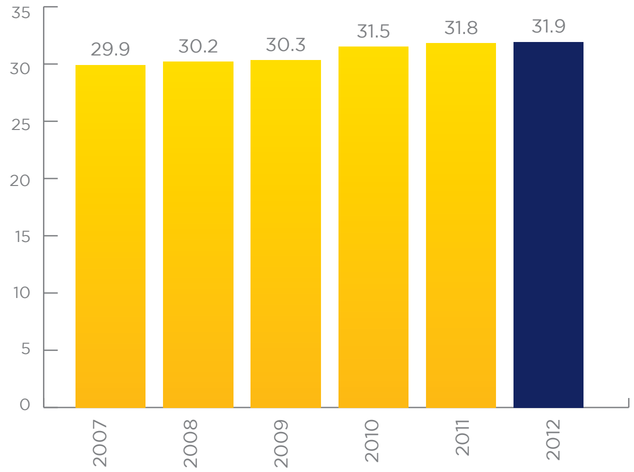
Q How do you overcome some of the consumer perceptions of used car dealers?

A Headlines on used car buyer complaints to Consumers Direct need to be viewed in context. The UK has an annual used car market of seven million transactions, covering thousands of operators, selling all ages and conditions of vehicle. We have a number of differentiators that distinguish us from the general used vehicle retail trade. As holders of new car franchises, our businesses operate to standards which far exceed a typical independent used car dealer's as we rigorously apply our criteria for what types of vehicle we will retail. Our comprehensive vehicle preparation processes help eliminate issues with the vehicle and our customer follow-up processes help us spot at an early stage any concerns with their purchase. Both we and our manufacturer partners use measures of customer satisfaction which mean our businesses focus on rapidly identifying and resolving any areas of concern.

OUR PRINCIPAL MARKETS

AFTERSALES

UK CAR PARC



STABLE CAR PARC

HIGH MARGIN

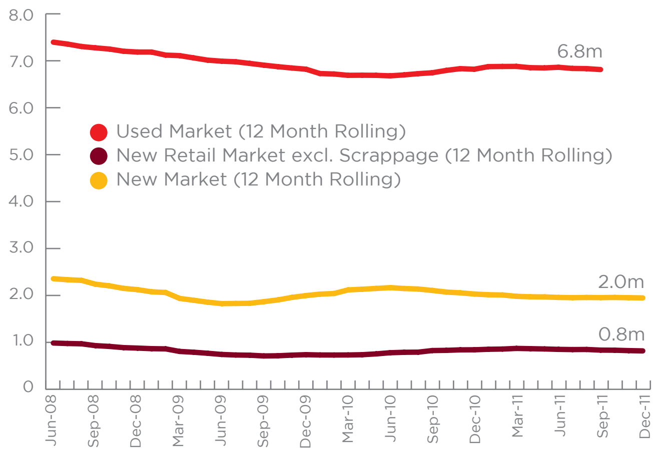
NON-CYCLICAL

USED

STABLE MARKET

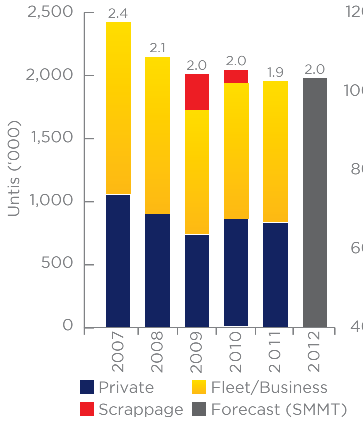
PENDRAGON MARKET OUTPERFORMANCE

HIGH RETURN ON INVESTMENT

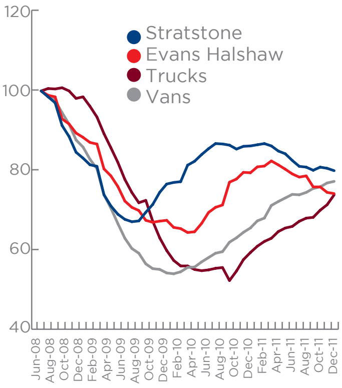


NEW

UK NEW CAR MARKET



12 month rolling SMMT private registrations excl. scrappage weighted on Pendragon market share



MANUFACTURER PARTNERSHIPS

BALANCED PORTFOLIO

STABLE MARGIN

OUR PRINCIPAL MARKETS

The UK is our principal market but we also have a small operation in California. The UK market splits into four key sectors in order of profit opportunity to the Group as follows: aftersales services, used vehicle sales, new vehicle sales and support businesses.

Aftersales Services Market: The determinants of the aftersales market are the overall size of the car parc, the age profile of the car parc and the demand for servicing and repair. The car parc is the number of cars in use on UK roads and this has typically been around 31 million vehicles in the last five years. The second determinant of the available market is the age profile of this car parc. Typically around 19% is represented by less than three year old vehicles, around 21% is represented by the four to six year old vehicles and the balance is greater than seven years old. Given the Group's significant new car presence it has traditionally operated more in the under three year old vehicle market than in the greater than three year old market profile. However the Group has been operating a strategy to target the older age vehicle parc which represents a significant opportunity. The demand for servicing and repair activity is less impacted by economic conditions than our other sectors, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons. However, whilst the market has been impacted by reduced consumer spending, it has been reported that consumers are increasingly deferring spend on vehicles, causing increased MOT failures.

Aftersales Sector Performance: The Group's underlying aftersales gross profit reduced by £7.7 million. However on a like for like basis, gross profit reduced by just £0.8 million which is a solid performance in the context of the falling vehicle parc market. Underlying aftersales gross profit margin increased from 57.1% in 2010 to 59.6% in 2011.

Used Vehicle Sector Market: The used vehicle sector comprises the selling of vehicles from one party to another for all vehicles except newly registered vehicles. The annual number of used car transactions and thus market opportunities has historically been around 7.5 million units. However, in 2010, the used car opportunity was 6.8 million. The latest available data from Experian illustrates a used car market that has been flat for the nine months to 30 September 2011 and our expectations are that the used car market will again be around 6.8 million for the full year 2011.

Used Vehicle Sector Performance: Underlying used car gross profitability was flat year on year with like for like used gross profit increasing by 3.6%. The Group achieved significant volume growth, up 14.4% on a like for like basis which more than offset reduced margin. This volume growth has been a key performance highlight in 2011, driven by the success of our strategic focus in this area.

New Vehicle Sector Market: The new vehicle sector consists of the first registration 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 in conducts . Prior to the downturn in 2008 the UK new car market was approximately 2.4 million vehicles. In the last three years, registrations have averaged under 2.0 million vehicles annually. In 2009 the government launched a scrappage scheme which boosted vehicle sales during the downturn. This scheme ended in the first half of 2010.

The following table summarises the new car market and scrappage scheme in the UK for the twelve months ended 31 December:

UK New Car Market	2011 '000	2010 '000	Variance %
Retail vehicle market	823.1	958.0	(14.1%)
Fleet vehicle market	1,118.2	1,072.8	4.2%
New vehicle market	1,941.3	2,030.8	(4.4%)
Scrappage vehicles	-	(107.3)	-
New vehicle market excl. scrappage	1,941.3	1,923.5	0.9%
Retail vehicle market excl. scrappage	823.1	850.6	(3.2%)

The UK commercial vehicle market, consisting of vans and trucks, had a market size of 303,000 new units in 2011 which was up 17.8% on 2010. The truck market increased by 24.6% in the year and the van market increased by 16.7%.

The Group has a small representation in California. The USA new car market was 12.7 million in 2011, a rise of 10.3% over 2010.

New Vehicle Sector Performance: The overall new vehicle gross profit for the Group reduced by £12.7 million in 2011. On a like for like basis the reduction in new gross profit was £7.8 million. This reduction has largely been due to the Evans Halshaw segment which has been more significantly impacted by the reduction in the new retail car market in 2011. Encouragingly, the Group maintained new car gross margin at 7.9% in 2011 despite these lower activity levels.

OUR SUPPORT MARKETS

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.

CONTRACTS

Contract Hire Market We operate a contract hire and leasing business in the UK. Profits are generated during the lease and 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.

Pendragon Contracts

PINEWOOD

Dealer Management Systems 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 under the 'Pinewood Technologies' brand.

pinewood

QUICKCO

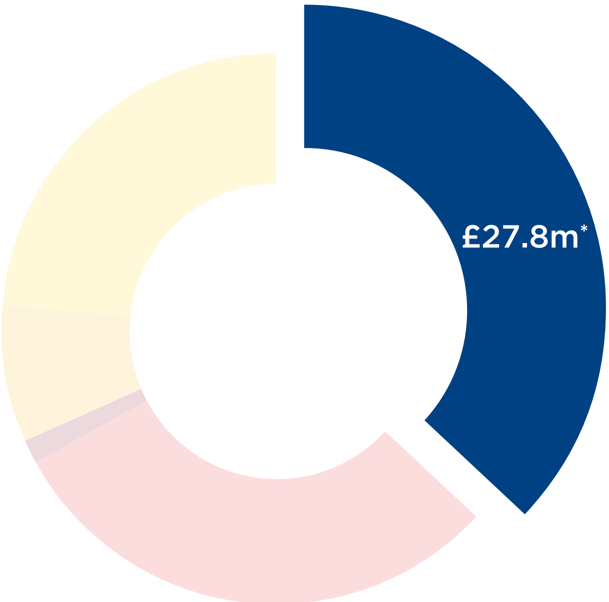
Parts Wholesale Market The market consists of wholesale motor vehicle parts suppliers who supply to franchise and non-franchise retailers. The market is scale driven but is highly fragmented owing to the large number of suppliers.

Quickco
AUTOMOTIVE PARTS & ACCESSORIES

Stratstone
quality with style
STRATSTONE
LE MANS
EXPERIENCE
14-18 JUNE 2012
BEEN ANYWHERE
EXCITING
With Your Car Lately?
LE MANS
EXPERIENCE 2012

OUR BUSINESS - STRATSTONE

2011 FINANCIAL HIGHLIGHTS

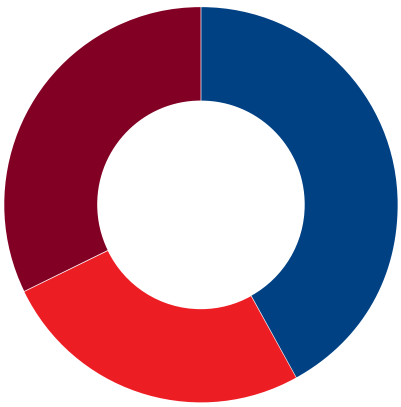


*Share of Group Operating Profit.

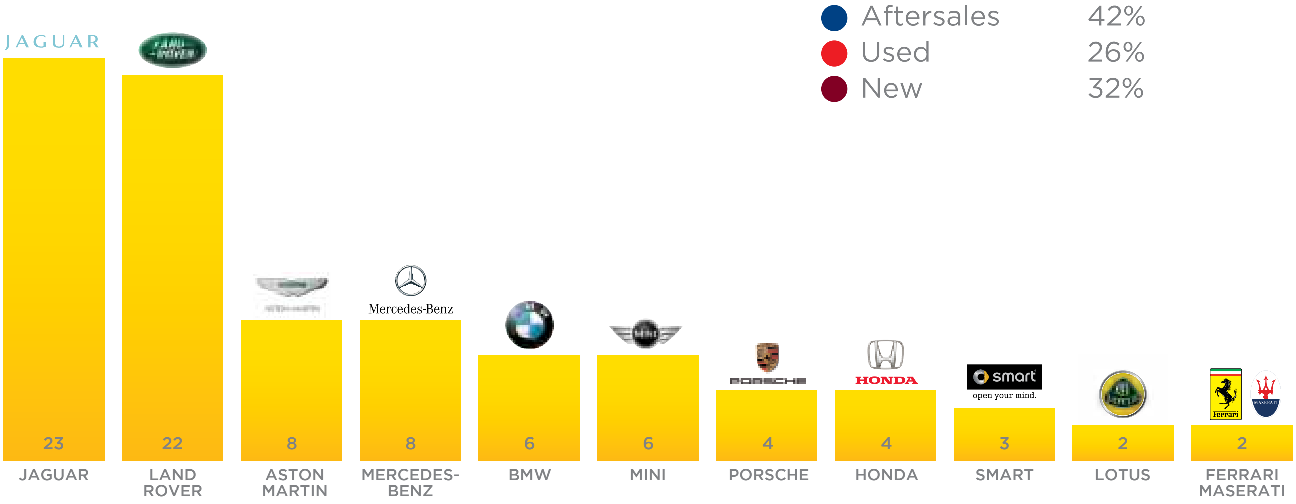
OPERATING PROFIT	£27.8m
OPERATING MARGIN	2.2%
GROSS PROFIT	£161.8m
GROSS MARGIN	12.8%

Stratstone is the UK's leading prestige motor car retailer with 93 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Porsche and Smart as well as five motorcycle franchises.

SPLIT OF GROSS PROFIT BY SECTOR

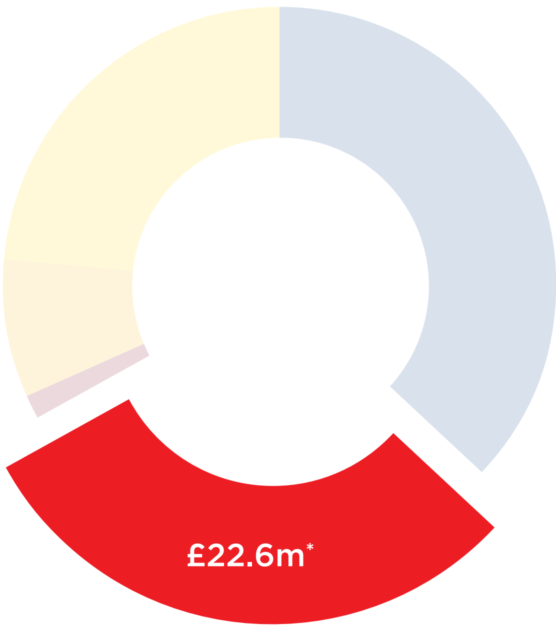


Aftersales	42%
Used	26%
New	32%



OUR BUSINESS - EVANS HALSHAW

2011 FINANCIAL HIGHLIGHTS

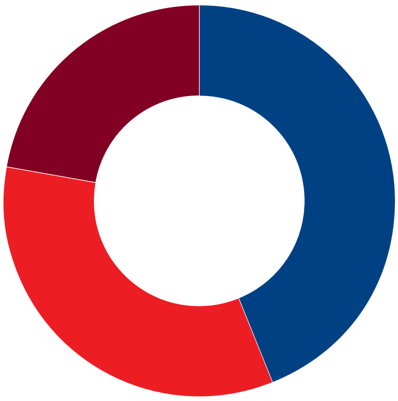


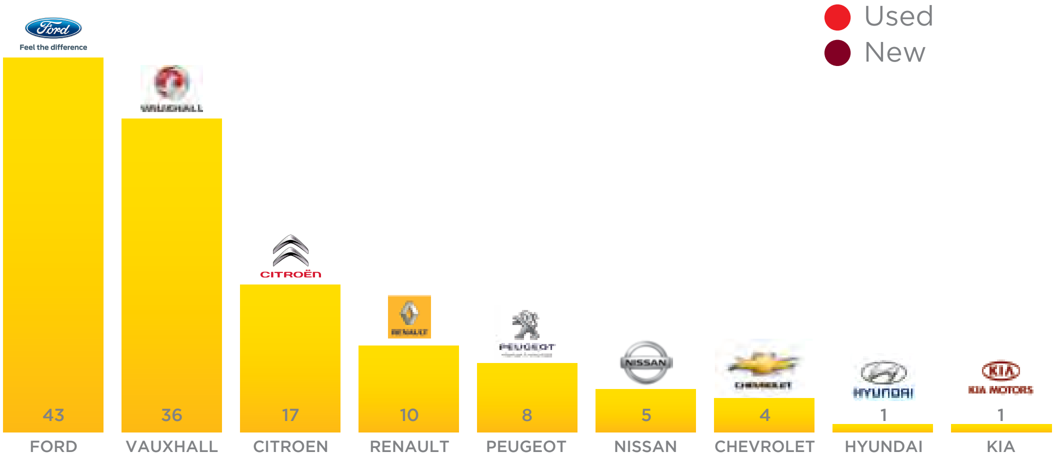
*Share of Group Operating Profit.

OPERATING PROFIT	£22.6m
OPERATING MARGIN	1.2%
GROSS PROFIT	£233.7m
GROSS MARGIN	12.6%

Evans Halshaw is the UK's leading volume motor car retailer, with 125 franchise points. Evans Halshaw holds franchises to retail and service Chevrolet, Citroen, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall as well as independent used car operations under the brands of Quicks and Evans Halshaw Motorhouse.

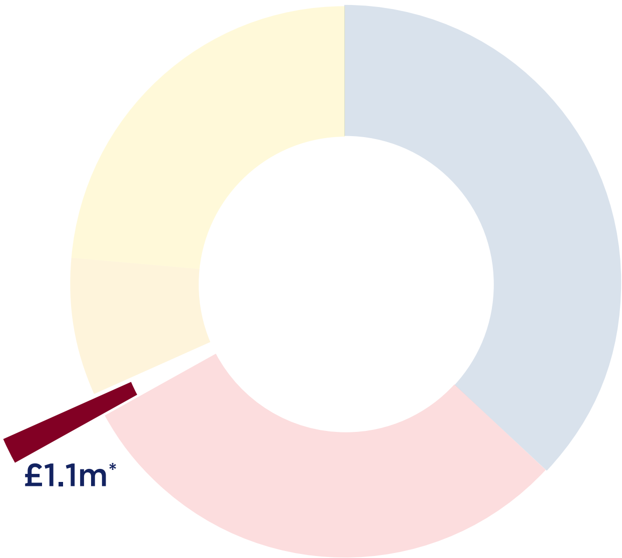
SPLIT OF GROSS PROFIT BY SECTOR





OUR BUSINESS - CHATFIELDS

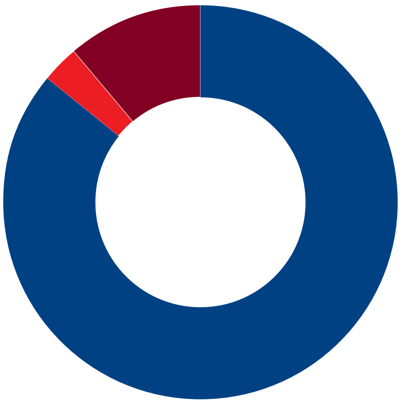
2011 FINANCIAL HIGHLIGHTS



*Share of Group Operating Profit.

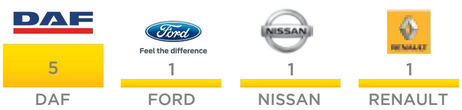
OPERATING PROFIT	£1.1m
OPERATING MARGIN	1.5%
GROSS PROFIT	£12.8m
GROSS MARGIN	17.2%

SPLIT OF GROSS PROFIT BY SECTOR



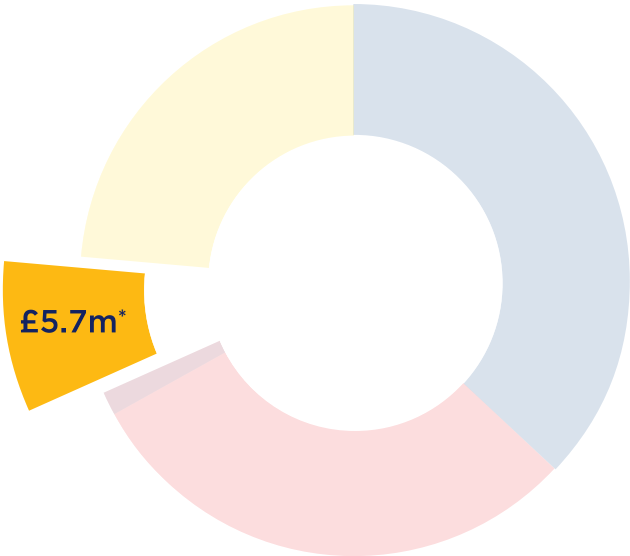
Aftersales	86%
Used	3%
New	11%

Chatfields Commercial vans and trucks retailer with eight franchise points in the UK. These comprise of DAF, Ford, Nissan and Renault.



OUR BUSINESS - CALIFORNIA

2011 FINANCIAL HIGHLIGHTS

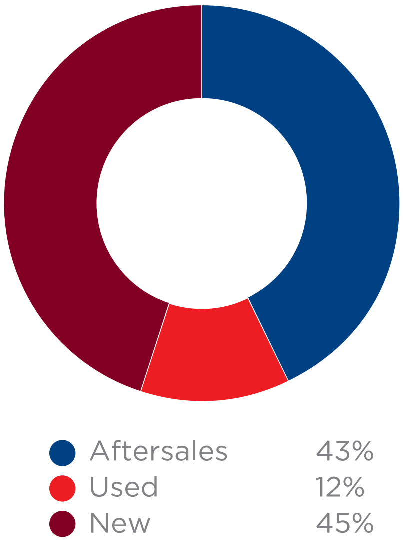


*Share of Group Operating Profit.

OPERATING PROFIT	£5.7m
OPERATING MARGIN	3.4%
GROSS PROFIT	£28.5m
GROSS MARGIN	16.8%

California Represents the prestige brands of Aston Martin, Land Rover and Jaguar with nine franchise points in Southern California. These comprise Aston Martin, Jaguar and Land Rover.

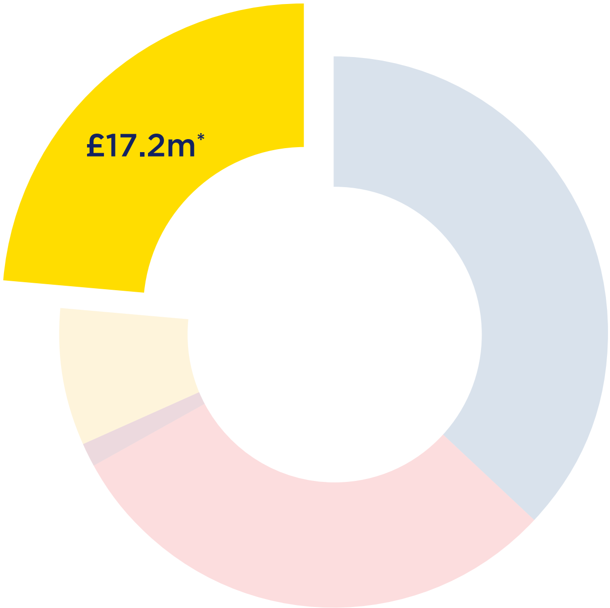
SPLIT OF GROSS PROFIT BY SECTOR



JAGUAR	LAND ROVER	ASTON MARTIN
4	4	1

OUR BUSINESS - SUPPORT BUSINESSES

2011 FINANCIAL HIGHLIGHTS



OPERATING PROFIT	£17.2m
OPERATING MARGIN	25.9%
GROSS PROFIT	£31.3m
GROSS MARGIN	47.2%

*Share of Group Operating Profit.

Support Businesses complement the Group's dealership activities by offering Contract Hire and Leasing from our Pendragon Contracts business, IT products and services from Pinewood and a wholesale parts distribution business with Quickco.

Pendragon Contracts

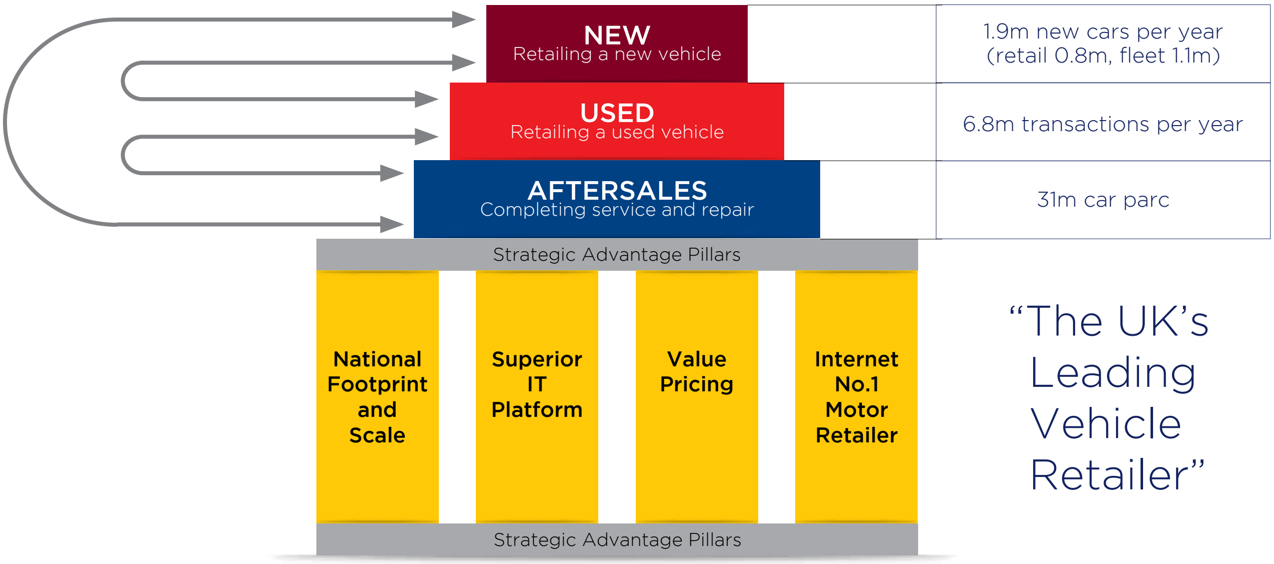
pinewood

Quickco
AUTOMOTIVE PARTS & ACCESSORIES

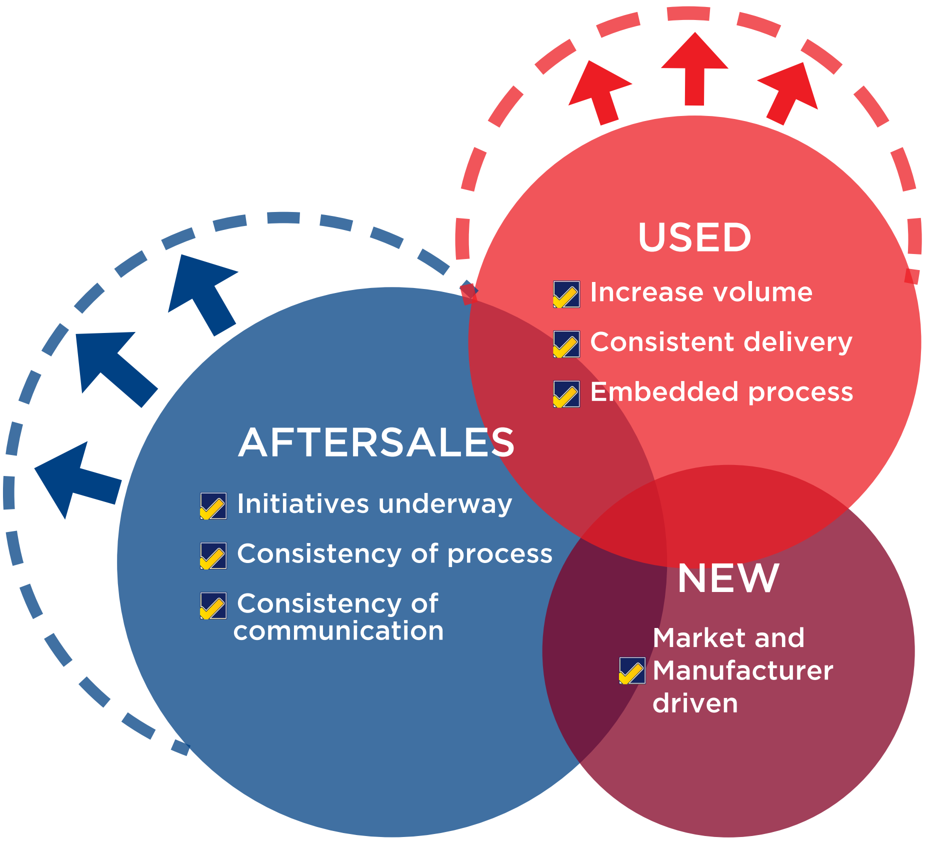

Ford
Focus

OUR BUSINESS MODEL & STRATEGY

BUSINESS MODEL



STRATEGY



OUR BUSINESS MODEL & STRATEGY

STRATEGY

Management's strategy is focussed on maximising the returns within three key sectors reflecting their contribution to the Group: aftersales, used and new. Within aftersales, the Group continues to roll out our Vehicle Health Check programme which encompasses a number of activities. This has assisted in stabilising profitability against a falling less than three year old car parc which is traditionally our core aftersales activity. The Group's key strategy in 2012 is to continue to grow the used sector performance. In the last three years the Group has been highly successful at growing this sector which has been a result of our strategic pillars. The strategic pillars for Pendragon are as follows: national footprint and scale, superior IT platform, value pricing and the number one internet motor retailer.

Each of the strategic pillars has provided a core support to the growth of used car activity which has resulted in like for like growth for the Group of 14.4% in 2011 and enhanced our aftersales and new car performance. The Group recognises the importance of the internet and social media in moving the business forward. As a result of this focus, the Group has seen increased website visits to Evanshalshaw.com and Stratstone.com by 49% since 2009 and increased website visits in 2011 by 21% over the prior year. Data from Experian's Hitwise, has confirmed that our combined brands of Evanshalshaw.com and Stratstone.com are the UK's number one internet motor retailer at December 2011. The Group has also invested resource into a number of social media, iPhone and android applications to support our internet pillar.

In conjunction with this marketing strategy the Group's value pricing is of fundamental focus to the Group. Our success within this area however has been reliant upon our in-house IT platform, enabling us to have an efficient execution of reporting and operational information relating to our used car activities. Finally the business is able to capitalise on our national footprint, scale and infrastructure. We market our stock through our own and external websites and have the capability to fulfil customer requirements through 226 franchise points throughout the UK.

Our scale has provided a strategic advantage to the Group in a number of other areas. Within the new car market, our large balanced portfolio ensures that we are insulated from the product cycles of our manufacturers, hence any franchises which are impacted by lower market share year on year tend to be compensated by franchises which have increased market share year on year. We continue to work closely with our manufacturing partners to ensure we meet expectations for new car performance and can enhance our mutual profitability.

Our scale has provided the Group further advantages by being able to realise economies of scale and minimise our fixed overheads. 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.

The Group continues to be highly selective about the decision to close or open new retail points. The Group closed 10 franchise points in 2011 which included the remaining two franchise points with SAAB together with some other non-core points. The Group is pleased to confirm that following the year end, it acquired the Leeds BMW and MINI business.

OPERATIONAL REVIEW

INTRODUCTION

Pendragon is the leading automotive retailer in the UK with 235 worldwide franchise points and a further 14 dedicated used car locations. Pendragon sells and services a broad range of new and used cars and commercial vehicles in the UK, has an operation in California and a substantial presence in the UK vehicle leasing, wholesale parts and dealership management system markets.

Pendragon's core vehicle businesses operate under the brands of Stratstone (for prestige vehicles) and Evans Halshaw (for the volume brands) for the sale and servicing of new and used cars. Chatfields is Pendragon's commercial van and truck business. The Group also has a vehicle business in California together with a number of support businesses in the UK.

The Group has significantly strengthened its financial position since the half year and the Rights Issue and refinancing has generated a reduced interest cost as a result of lower average debt and improved terms. The Group has delivered a second half underlying profit before tax of £13.1 million resulting in a full year underlying profit before tax position of £30.8 million, a 22% improvement on 2010. This has been achieved by interest savings and by the Group maintaining its position in difficult trading conditions through a combination of improved business performance, continued focus on costs and operating leverage as a result of significant increases in used volume.

The Group has been right-sizing the business in the last three years as a result of the changing economic environment and has reduced the number of franchise points by 10 in 2011. All franchise points continue to be reviewed from a strategic and cost perspective. The Group is focussed on continuing to enhance earnings through its used car initiatives. The Group is pleased to report like for like used vehicle volume growth of 14.4% in 2011 and a continuation of this trend with a further like for like growth in used vehicle volume of 13.7% in January 2012.

Trevor Finn, Chief Executive, commented:

"Pendragon made good progress in 2011 despite turbulent economic conditions, achieving underlying profit before tax of £30.8 million, an increase of 22 per cent over the prior year and over three times the underlying profit of 2009. The Group has benefited from strong focus on maximising returns and the success of its self-help initiatives within its three key business sectors: aftersales, used and new. Encouragingly, used car performance continues to be a high point for the Group and will remain a key strategic area in 2012. Our internet presence with Evanshalshaw.com and Stratstone.com is an important differentiator for Pendragon in the market and has driven our strong aftersales, used and new performance. The year ahead is set to be challenging, but given our recapitalised balance sheet, healthy cash generation, clear strategic goals and robust operational management we expect to maintain our momentum into 2012."

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. Additionally we have segments for our Chatfields truck business and California. Support businesses consist of the following four segments: Leasing, Quickco, Pinewood and Central.

RESULTS BY SEGMENT & SECTOR

Underlying revenue, gross profit and operating profit by segment for the Group for the twelve months ended 31 December are shown below:

Underlying by segment	**2011 Revenue £m**	**2011 Gross profit £m**	**2011 Operating profit £m**	2010 Revenue £m	2010 Gross profit £m	2010 Operating profit £m
Stratstone	**1,259.3**	**161.8**	**27.8**	1,317.7	178.1	29.2
Evans Halshaw	**1,848.7**	**233.7**	**22.6**	1,902.9	240.3	20.6
Chatfields	**74.3**	**12.8**	**1.1**	75.0	13.6	1.4
California	**169.6**	**28.5**	**5.7**	159.5	27.7	5.8
Support Businesses	**66.3**	**31.3**	**17.2**	79.2	36.8	18.1
Total	**3,418.2**	**468.1**	**74.4**	3,534.3	496.5	75.1

RESULTS BY SEGMENT & SECTOR *Continued*

Underlying revenue, gross profit and gross margin percentage by sector for the vehicle retail business for the twelve months ended 31 December are shown below:

Underlying by sector	2011 Revenue £m	2011 Gross profit £m	2011 Gross margin %	2010 Revenue £m	2010 Gross profit £m	2010 Gross margin %
Aftersales	**326.6**	**194.6**	**59.6%**	354.7	202.3	57.1%
Used	**1,287.5**	**124.7**	**9.7%**	1,189.1	124.7	10.5%
New	**1,515.9**	**119.9**	**7.9%**	1,678.7	132.6	7.9%
Trade/Wholesale	**221.9**	**(2.4)**	**(1.1%)**	232.6	0.1	0.1%
Total	**3,351.9**	**436.8**	**13.0%**	3,455.1	459.7	13.3%

STRATSTONE

Stratstone is the UK's leading prestige motor car retailer with 93 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Porsche and Smart as well as five motorcycle franchises. The results for the twelve months 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	1,236.6	159.4	12.9%	29.3	2.4%	44.3	
Disposed	22.7	2.4	10.6%	(1.5)	(6.6%)	1.0	
Total 2011	**1,259.3**	**161.8**	**12.8%**	**27.8**	**2.2%**	**45.3**	**2,072**
Total 2010	1,317.7	178.1	13.5%	29.2	2.2%	46.9	2,183

The underlying results by sector for the twelve months ended 31 December are shown below:

Underlying by sector	2011 Revenue £m	2011 Gross profit £m	2011 Gross margin %	2010 Revenue £m	2010 Gross profit £m	2010 Gross margin %
Aftersales	**113.2**	**68.0**	**60.1%**	127.6	75.9	59.4%
Used	**547.3**	**42.5**	**7.8%**	533.4	45.5	8.5%
New	**556.7**	**52.1**	**9.4%**	606.7	56.0	9.2%
Trade/Wholesale	**42.1**	**(0.8)**	**(1.8%)**	50.0	0.7	1.4%
TOTAL	**1,259.3**	**161.8**	**12.8%**	1,317.7	178.1	13.5%

Revenues were up by 2.6% year on year on a like for like basis assisted by strong used car volume growth. Like for like aftersales gross margins are strong at 60.4%, in line with the prior year. The aftersales sector gross profit decreased on a like for like basis by 3.8%, with retail activity falling 2.5% but warranty work falling significantly by 15.9%. Used volume increased by 12.4% on a like for like basis in Stratstone, with used retail gross profit falling by 1.2%.

STRATSTONE *Continued*

The following table provides the movement in registrations nationally for the brands that Stratstone represents for the twelve months end 31 December:

Stratstone New Car Market	2011 '000	2010 '000	Variance %
Retail vehicle market	180.4	197.3	(8.6%)
Fleet vehicle market	183.9	165.3	11.2%
New vehicle market	**364.3**	**362.6**	**0.5%**
Scrappage vehicles	-	(8.0)	-
New vehicle market excl. scrappage	**364.3**	**354.6**	**2.7%**
Retail vehicle market excl. scrappage	180.4	189.3	(4.7%)

Our retail performance excluding scrappage on a like for like basis, our primary area of focus, was down by 7.1% compared to a national decrease of 4.7% for the brands that Stratstone represents.

EVANS HALSHAW

Evans Halshaw is the UK's leading volume motor car retailer, with 125 franchise points. Evans Halshaw holds franchises to retail and service Chevrolet, Citroen, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall. The results for the twelve months 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	1,830.9	231.9	12.7%	23.1	1.3%	167.9	
Disposed	17.8	1.8	10.1%	(0.5)	(2.8%)	1.8	
Total 2011	**1,848.7**	**233.7**	**12.6%**	**22.6**	**1.2%**	**169.7**	**769**
Total 2010	1,902.9	240.3	12.6%	20.6	1.1%	168.9	817

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

Underlying by sector	**2011 Revenue £m**	**2011 Gross profit £m**	**2011 Gross margin %**	2010 Revenue £m	2010 Gross profit £m	2010 Gross margin %
Aftersales	**161.3**	**103.3**	**64.0%**	173.1	102.3	59.1%
Used	**698.4**	**78.5**	**11.2%**	618.5	75.9	12.3%
New	**818.3**	**53.4**	**6.5%**	938.5	62.7	6.7%
Trade/Wholesale	**170.7**	**(1.5)**	**(0.9%)**	172.8	(0.6)	(0.4%)
TOTAL	**1,848.7**	**233.7**	**12.6%**	1,902.9	240.3	12.6%

Total revenues fell by 1.1% on a like for like basis over the prior year, largely driven by new retail and fleet activity reductions offset by significant revenue growth in used. Like for like aftersales gross profit increased by 2.4% with aftersales margin at 63.8% which is an increase from 59.2% in the prior year. Used volume increased 14.9% with used retail gross profit up by 5.3% on a like for like basis.

EVANS HALSHAW *Continued*

The following table provides the movement in registrations nationally for the brands that Evans Halshaw represents for the twelve months ended 31 December:

Evans Halshaw New Car Market	2011 '000	2010 '000	Variance %
Retail vehicle market	354.1	436.0	(18.8%)
Fleet vehicle market	603.7	591.1	2.1%
New vehicle market	**957.8**	**1,027.1**	**(6.7%)**
Scrappage vehicles	-	(56.5)	-
New vehicle market excl. scrappage	**957.8**	**970.6**	**(1.3%)**
Retail vehicle market excl. scrappage	354.1	379.5	(6.7%)

Our retail performance excluding scrappage on a like for like basis, our primary area of focus, was down by 4.5% compared to a national decrease of 6.7% for the brands that Evans Halshaw represents.

CHATFIELDS

Chatfields is our commercial vans and trucks segment with eight franchise points. Chatfields holds franchises to retail and/or service Ford, DAF, Nissan and Renault. Revenues on a like for like basis are in line with the prior year largely due to an increase in used retail volume offsetting a fall in new retail and trade volumes. Gross profit on a like for like basis fell by 4.1% largely due to a fall in new gross profit. Encouragingly used volume on a like for like basis increased by 45.0%, a significant improvement over the prior year. New vehicle volumes increased by 1.6% on a like for like basis. The results for the twelve months 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	74.3	12.8	17.2%	1.1	1.5%	1.6	
Disposed	-	-	-	-	-	-	
Total 2011	**74.3**	**12.8**	**17.2%**	**1.1**	**1.5%**	**1.6**	**1,122**
Total 2010	75.0	13.6	18.2%	1.4	1.8%	1.4	1,659

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

Underlying by sector	**2011 Revenue £m**	**2011 Gross profit £m**	**2011 Gross margin %**	2010 Revenue £m	2010 Gross profit £m	2010 Gross margin %
Aftersales	**28.9**	**11.0**	**37.9%**	29.7	11.3	38.1%
Used	**8.6**	**0.4**	**4.5%**	5.3	0.4	8.2%
New	**35.2**	**1.4**	**4.1%**	36.1	1.8	4.9%
Trade/Wholesale	**1.6**	**(0.0)**	**(1.7%)**	3.9	0.1	2.4%
TOTAL	**74.3**	**12.8**	**17.2%**	75.0	13.6	18.2 %

CALIFORNIA

California consists of nine franchise points in Southern California which operate Aston Martin, Jaguar and Land Rover brands. Turnover increased by 6.3% over the 2010 period largely owing to new vehicle sales resulting from strong Land Rover performance. New unit volume has increased by 12.7% and used volume has increased by 7.4% versus the prior year. The results for the twelve months 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	169.6	28.5	16.8%	5.7	3.4%	3.9	
Disposed	-	-	-	-	-	-	
Total 2011	**169.6**	**28.5**	**16.8%**	**5.7**	**3.4%**	**3.9**	**4,158**
Total 2010	159.5	27.7	17.4%	5.8	3.7%	3.5	4,221

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

Underlying by sector	**2011 Revenue £m**	**2011 Gross profit £m**	**2011 Gross margin %**	2010 Revenue £m	2010 Gross profit £m	2010 Gross margin %
Aftersales	**23.2**	**12.4**	**53.4%**	24.3	12.9	53.1%
Used	**33.1**	**3.4**	**10.2%**	31.9	2.8	8.8%
New	**105.8**	**12.8**	**12.1%**	97.4	12.1	12.4%
Trade/Wholesale	**7.5**	**(0.1)**	**(0.9%)**	5.9	(0.1)	(1.0%)
TOTAL	**169.6**	**28.5**	**16.8%**	159.5	27.7	17.4%

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. The underlying results for the twelve months ended 31 December are summarised as follows:

Underlying	Revenue £m	Gross profit £m	Gross margin %	Operating profit £m	Operating margin %
Total 2011	**66.3**	**31.3**	**47.2%**	**17.2**	**25.9%**
Total 2010	79.2	36.8	46.5%	18.1	22.9%

Contract Hire Performance: The contract hire and leasing business generated an operating profit of £6.5 million compared to £7.5 million in the prior period due to lower volume of profit on end of lease disposals as the fleet size has reduced. The fleet size stood at 9,800 at 31 December 2011 compared to 10,100 at 31 December 2010. This trend is expected to continue in 2012 but then stabilise in future years. 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 2011	**38.1**	**9.8**	**25.6%**	**6.5**	**17.2%**	**9.8**
Total 2010	44.9	9.9	22.1%	7.5	16.7%	10.1

SUPPORT BUSINESSES *Continued*

Dealer Management Systems Performance: Operating profit for the period is broadly in line with the prior year at £8.8 million. 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 2011	**22.9**	**16.4**	**71.7%**	**8.8**	**38.4%**
Total 2010	23.8	16.1	67.8%	9.1	38.4%

Parts Wholesale Performance: Quickco, our independent genuine parts wholesale business, improved with operating profit increasing to £1.9 million from £1.5 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 %
Total 2011	**61.5**	**14.1**	**22.9%**	**1.9**	**3.0%**
Total 2010	61.9	14.4	23.3%	1.5	2.4%

FINANCIAL PERFORMANCE SUMMARY

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

£m	2011 Underlying*	2011 Total	2010 Underlying*	2010 Total
Revenue	**3,418.2**	**3,465.8**	3,534.3	3,575.0
Underlying operating profit	**74.4**	**74.4**	75.1	75.1
Non-underlying operating income / (costs)	**-**	**3.2**	-	(12.2)
Operating profit before other income	**74.4**	**77.6**	75.1	62.9
Other income – gain on sales of property and businesses	**-**	**0.4**	-	0.3
Operating profit	**74.4**	**78.0**	75.1	63.2
Underlying net finance costs	**(43.6)**	**(43.6)**	(49.9)	(49.9)
Non-underlying finance costs	**-**	**(10.4)**	-	(2.3)
Profit before tax	**30.8**	**24.0**	25.2	11.0
Tax	**(5.7)**	**15.8**	(9.1)	(5.4)
Profit after tax	**25.1**	**39.8**	16.1	5.6
Basic earnings per share†		**3.7p**		0.6p
Underlying basic earnings per share†	**2.3p**		1.8p	

† Restated to reflect the impact of the bonus element of the Rights Issue
* Underlying results exclude items that are unusual due to their nature, size or incidence

Revenue is down £109.2 million for the twelve months to 31 December 2011 compared to 2010. Group like for like turnover excluding support businesses has increased by £20.0 million reflecting improvements in used vehicle volume performance whereas new vehicle revenue has declined. Like for like revenue has increased by 13% in used vehicle activity and has decreased by 6% in new vehicles.

Underlying operating profit was £74.4 million in 2011 compared to £75.1 million in 2010. The underlying operating margin was 2.2% in 2011 versus 2.1% in 2010. The business continues to improve operating margins as a result of improved aftersales gross margin and our focus on costs has improved our operating cost margin. On a like for like basis our aftersales gross margin has increased from 57.4% to 59.6% in 2011, reflecting the benefit of our aftersales initiatives and our higher productivity as a result of higher used volumes. Used retail gross margin has fallen slightly from 10.5% in 2010 to 9.7% in 2011 but our significantly higher volume has compensated for this margin decline. The new car margin has strengthened in our Stratstone business but weakened in our Evans Halshaw business reflecting pressure in the volume sector of the new car market leaving the overall new car margin unchanged at 7.9%.

Underlying financing costs were £43.6 million which compares to £49.9 million in the prior year as the Group has reduced the overall level of debt through operating cashflow and due to the Rights Issue completed in August 2011. The benefit of the reduced debt and improved terms following the Rights Issue has therefore only impacted four months of the year.

CAPITAL STRUCTURE

During the period, the Group has undertaken the refinancing of the Group which has three elements. Firstly, the Group has completed a Rights Issue that has raised gross proceeds of £75.2 million (£70.8 million net of expenses). The Rights Issue was on a 9 for 8 ratio at an issue price of 10 pence per share – representing a 35.6% discount to the theoretical ex-rights price based on the closing price of the existing shares of 21.8 pence on 13 July 2011 (the day before the Rights Issue announcement). Secondly, the Group secured revised debt facilities of £360 million on more favourable terms with a maturity date of 30 June 2014. Thirdly, the Group implemented a Pension Deficit Reduction Plan that is estimated to unlock aggregate cash flow savings of £46 million in the three year period from implementation to December 2014. Under the Pensions Deficit Reduction Plan the Group has provided the Pension schemes with an investment which will generate a predictable property asset-backed income for the schemes. The new arrangements enable the Group to benefit from lower annual cash contributions than the previous arrangements.

CAPITAL STRUCTURE *Continued*

The proceeds of the Rights Issue allowed the Group to improve its level of financial indebtedness towards the previously stated long-term Debt:Underlying EBITDA ratio target of 2.0:1.0. The year end Debt:Underlying EBITDA ratio was 2.2:1.0. As a result of the acceleration in the achievement of this ratio, the Group has set a new Debt:Underlying EBITDA target of below 1.5:1.0.

The Group is also pleased to report a significant reduction in net borrowings over the prior year. Net borrowings were £246.8 million at 31 December 2011 which is a £78.7 million reduction versus 31 December 2010. The net borrowings include the effect of some further vehicle stock investment to support our strategic goals. The Group's balance sheet remains a key strategic priority and area of focus.

Operating cash inflow during the period was £97.6 million, which compares with £44.8 million in the prior year. The operating cash flow includes an outflow of working capital of £19.0 million versus an outflow of £59.6 million in the prior year. The Group continues to operate comfortably within the existing facility covenants.

NON-UNDERLYING ITEMS

Non-underlying items primarily relate to refinancing and the Pension Deficit Reduction Plan costs, start-up business costs, property disposals, VAT settlements and pension income. They are summarised as follows:

Non-underlying items	2011 £m	2010 £m
Closed business and redundancy costs	-	(8.5)
Start-up business costs	(4.8)	(2.8)
Property impairment and net profit / loss on disposal	(0.6)	(0.6)
Refinancing and Pension Deficit Reduction Plan costs	(18.5)	-
Pension net finance income / (charge)	2.6	(2.3)
VAT settlements and provision releases	14.5	-
Total	**(6.8)**	**(14.2)**

Total net non-underlying costs before tax were £6.8 million for 2011 (2010: £14.2 million). The most significant cost included in non-underlying items was £18.5 million in relation to the refinancing of the Group in 2011 and the associated Pension Deficit Reduction Plan.

The Group is continuing to develop its new venture in the used car market, "Quicks", which has incurred start-up costs and operating losses of £4.8 million in 2011. The Quicks operation has grown to seven sites during the year from four in the prior year. The volume of used cars sold through the Quicks businesses in the year was 6,700. This represents a throughput per site of 950 which is higher than the average in our Evans Halshaw division. During 2012 we will be focussed on ensuring that the Quicks business generates improved performance. This will be achieved through:

- improved team efficacy to generate greater sales volume and profitability per car per team member
- increased brand awareness through our internet presence
- improved stock mix profile and pricing

As a consequence of the expected time it will take for the improvements necessary to reach our required standards in the Quicks business, we anticipate the operating costs invested in 2012 to be approximately £1.5 million.

The Group previously has shown closed businesses and redundancy costs within the non-underlying results. However, following the right-sizing of the Group in 2010, these items are now included within the underlying results. The closed business costs and redundancy costs in 2011 which are shown within the underlying results amount to £2.6 million (2010 : non-underlying cost of £8.5 million).

The £14.5 million VAT income relates to £9.4 million of VAT provision release and refunds and £5.1 million of interest on the VAT refunds. VAT refunds of £4.7 million, net of costs, were recognised in the year in respect of VAT overpaid on demonstrator vehicles over the period from 1973 to 1996. The amount includes associated interest received of £5.1 million which is disclosed within finance income. In addition the Group has completed discussions with HM Revenue & Customs in respect of the VAT treatment of sales of vehicles to certain disabled customers and has reversed the remainder of the provision held in respect of this matter which amounted to £4.7 million.

FINANCIAL REVIEW

DIVIDEND

No interim dividend was paid during the year and no final dividend is proposed. No dividends were paid in 2010. As indicated in 2011, it remains the Board's intention for the Company to resume paying dividends in relation to its 2012 financial year and onwards, subject to a review of the Group's position at the relevant time.

CASH FLOW

The cash flows of the business for the twelve months ended 31 December are summarised as follows:

	2011 £m	2010 £m
Underlying operating profit	**74.4**	75.1
Depreciation and amortisation	37.2	40.0
Non-underlying cash flow	4.2	(11.3)
Underlying working capital movement	(19.0)	(59.6)
Other items	0.8	0.6
Operating cash flow	**97.6**	44.8
Net underlying interest paid	(48.2)	(36.9)
Net non-underlying interest paid	(8.3)	-
Tax paid	(1.5)	(1.4)
Replacement capital expenditure	(21.2)	(13.3)
Free cash flow	**18.4**	(6.8)
Acquisitions	(6.8)	(6.5)
Disposals	4.2	9.0
Other	(7.9)	(5.8)
Net proceeds of rights issue	70.8	-
Reduction / (increase) in net debt	**78.7**	(10.1)

Operating cash flow was £97.6 million, which compares with £44.8 million generated in 2010. The operating cash flow includes an outflow of underlying working capital of £19.0 million versus an outflow of £59.6 million in the prior year. Non-underlying interest costs of £8.3 million principally comprise of refinancing costs.

Replacement capital expenditure was £8.7 million in respect of plant & machinery and fixtures & fittings. Business disposals raised £0.9 million in 2011 (2010 : £4.9 million) with a £0.2 million loss on sale (2010 : £nil). Surplus property disposals raised £3.3 million (2010 : £4.1 million) with a £0.6 million profit on sale (2010 : £0.3 million).

The net proceeds of the Rights Issue was £70.8 million (gross proceeds of £75.2 million).

The Group continues to operate comfortably within its banking covenants.

FINANCIAL REVIEW

NET DEBT & FINANCING

Our net borrowings as at 31 December 2011 were £246.8 million compared to £325.5 million at the end of 2010. 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:

Net Debt and Funding	2011 £m	2010 £m
Bank	245.2	323.0
Finance leases	1.6	2.5
Net debt	**246.8**	325.5
Stock finance	129.1	128.8
Manufacturer finance arm	399.1	338.5
Pension deficit	8.0	69.7
Total funding	**783.0**	862.5

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 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 revised long-term Debt:Underlying EBITDA target of 1.5:1.0.

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 2011 we held £173.8 million (2010 : £177.1 million) of property assets on the balance sheet as well as £29.0 million of properties held for sale.

In 2011 we disposed of three freehold properties which were operationally surplus to requirements. This resulted in proceeds of £3.3 million and profit of £0.6 million on disposal.

Regarding our investment in our joint venture property company, the value of this investment continues to be fully impaired. The restructuring of the joint venture was completed during the year. 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.

DIRECTORS' REPORT

DIRECTORS REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group's principal activities consist of the sale and repair of new and used motor vehicles, contract hire and leasing of vehicles, wholesale of motor vehicle parts and provision of dealer management software systems.

BUSINESS REVIEW

More detailed information regarding the Group's performance and activities for the year ended 31 December 2011 and future developments is presented in the Operational Review on pages 24 to 29, and all the information detailed in those pages is incorporated by reference into this report and is deemed to form part of this report. The Company has not disclosed certain specific non-financial key performance indicators, in the absence of relevant measures monitored consistently over the past three years.

CORPORATE GOVERNANCE

The corporate governance statement as required by the Disclosure and Transparency Rules 7.2.1 is set out on pages 44 to 53 and is incorporated by reference into this report.

RESULTS AND DIVIDENDS

The results of Pendragon PLC for the year are set out in the financial statements on pages 67 to 139. No interim dividend was paid during the year and no final dividend is proposed. No dividends were paid in 2010. As indicated in 2011, it remains the Board's intention for the Company to resume paying dividends in relation to its 2012 financial year and onwards, subject to a review of the Group's position at the relevant time.

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 table starting on page 35 sets out the principal risks faced by the Group, and examples of relevant key controls and mitigating factors. The 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 risk management and systems of internal control in the Corporate Governance Report on pages 50 to 51. Health and safety is addressed within the Corporate Governance Report on page 52.

PRINCIPAL RISKS AND UNCERTAINTIES *Continued*

PRINCIPAL RISKS	POTENTIAL IMPACT/ MATERIAL RISK	KEY CONTROLS & MITIGATING FACTORS
STRATEGY AND FINANCE		
Business strategy >	If we fail to deliver on our strategy or our strategy follows the wrong direction or is not effectively communicated the business may suffer.	• Regular and continuous review of strategic matters by the Board and Executive Committee; strategy, formally reviewed by Board annually. • Significant resource invested in effective communication of strategy, both to those delivering it and to stakeholders. • Sophisticated and flexible management information systems support analysis of outcomes.
Funding and liquidity >	Liquidity risk relates to our ability to pay for the goods and services required by the Group to trade. The Group has 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.	• Strategy within the Group Treasury function of diversifying funding sources and engaging with new funding sources to prevent over-reliance on any one source. • Continuous focus on monitoring working capital utilisation via sophisticated and flexible management information systems.
Pensions >	The Group has defined benefit pension schemes that are in deficit and in respect of which it may be required to increase its contributions and/or to fund an increase in the cost of future benefits. Any such increased contributions could have a material adverse impact on the Group's business.	• Group Pension schemes' revised deficit reduction plan agreed in 2011 with the pension schemes' trustees reduced the cash contributions made by the Group. • Ongoing review of other available options to mitigate the risk of underlying volatility causing an increase in the pension deficit.

PRINCIPAL RISKS AND UNCERTAINTIES *Continued*

PRINCIPAL RISKS	POTENTIAL IMPACT/ MATERIAL RISK	KEY CONTROLS & MITIGATING FACTORS
MACRO-ECONOMIC, LEGISLATIVE & POLITICAL		
Adverse economic and business conditions >	Changing UK macroeconomic conditions such as unemployment levels, volatility in equity markets, consumer confidence, the level of discretionary spending, interest rates, inflation, fuel prices and the availability and cost of credit could adversely affect the Group's trading, financial position and prospects.	• Monitoring and tracking of internal performance measures to key macro-economic indicators allows anticipation of, and mitigation planning for, expected volatilities.
Used vehicle prices can decline significantly >	A significant decline in used vehicle prices can reduce used vehicle profit margins. As a significant proportion of our business comprises used vehicle sales, 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.	• Diverse market and brand strategy avoids over-reliance on used vehicles as a revenue stream. As such, the impact of any price decline is mitigated as a result of revenue streams balanced between aftersales, new and used.
Legislative changes in relation to vehicle taxation >	The UK Government may take action in relation to VAT, the taxation of engine emissions, road usage or fuel for vehicles or introduce new green taxes.	• Ensuring that information about forthcoming changes in the vehicle taxation regime is promptly obtained so that potential mitigating strategies can be properly devised and considered.
Regulatory compliance risk >	The Group is subject to regulatory compliance risk which can arise from a failure to comply with the applicable laws, regulations or codes. Non-compliance can lead to fines, cessation of certain business activities or public reprimand.	• External regulatory uncertainties are carefully considered when developing strategy. Understanding of the likely direction of new regulatory policy is gained through close contact with relevant sector trade and representative bodies. • Robust procedures are in place to identify the impact of changes in regulation and its application and minimise the risk of non-compliance.

PRINCIPAL RISKS AND UNCERTAINTIES *Continued*

PRINCIPAL RISKS	POTENTIAL IMPACT/ MATERIAL RISK	KEY CONTROLS & MITIGATING FACTORS
OUR MANUFACTURERS & SUPPLIERS, PERFORMANCE & KEY RELATIONSHIPS		
Vehicle manufacturer dependencies >	The Group depends on the vehicle manufacturers' financial condition, marketing, vehicle design, production and distribution capabilities, reputation, management and industrial relations. 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.	• Diverse franchise representation avoids over-reliance on any single manufacturer.
Vehicle manufacturer marketing programmes >	Vehicle manufacturers provide a wide variety of marketing programmes that are intended to promote new vehicle sales. A withdrawal or reduction in these programmes would have an adverse impact on our business.	• Over-reliance on any single manufacturer's marketing programmes is mitigated by our diverse franchise representation. • The Group continues to develop its own stand alone marketing initiatives.
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 programmes designed to incentivise the sale of new vehicles produced. 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 impacts negatively on prices and profit margins for used cars.	• The Group liaises closely with all its manufacturer partners to ensure that sales targets are set at levels more readily achievable in the prevailing economic climate.
Franchise agreements >	The Group operates 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 to display manufacturer trade marks.	• Diverse franchise representation, avoiding over-reliance on any single manufacturer. Revenue streams from other markets (aftersales and used vehicles) preventing over-reliance on new vehicle sales.

PRINCIPAL RISKS AND UNCERTAINTIES *Continued*

PRINCIPAL RISKS	POTENTIAL IMPACT/ MATERIAL RISK	KEY CONTROLS & MITIGATING FACTORS
OUR TEAM MEMBERS		
Reliance on certain members of management and key team members >	The Group is dependent on members of its senior management team and skilled personnel. 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.	• The Group continuously aims to provide secure and satisfying employment, recognising the contribution of each team member to the success of our business. • Recruitment processes, salaries and performance related pay elements are continuously reviewed and refined to ensure that the Group retains its ability to attract highly skilled management and personnel.
TECHNOLOGY, INFORMATION SYSTEMS & ESTIMATES		
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.	• A robust business continuity planning process is followed, with alternative conduits for data and communications in the event of business interruption. • The Group's broad and geographically diverse estate allows deployment of key teams to alternative premises, and timely replication of interrupted services and functions.
Reliance on the use of significant estimates >	The Company relies on certain estimates and associated assumptions that could have a material effect on its financial statements. These include: discounted cash flows for impairment testing, valuations of properties held for sale, estimates of vacant property provisions, repurchase commitments, future warranty costs and warranty provisions and the value of vehicles the subject of future repurchase obligations.	• Where estimates and associated assumptions are required, the Group seeks to obtain the best available information to reach a conclusion, using external data sources where possible. • The accuracy of previous assumptions or estimates is reviewed to assess whether this impacts the current position.
COMPETITION		
Competition and market challenge >	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. We also compete with a range of financial institutions that finance customers' vehicle purchases directly. 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.	• The Group remains committed to providing a good value, personalised service to existing and potential customers, with the vision of being the number one choice in all our markets. To this end, we aim to capitalise on our extensive national footprint and the resultant cost-efficiencies. • We regularly monitor our competitors' activities. • Our scale enables us to develop new market opportunities rapidly, using the extensive experience of our team members and our in-house information technology capabilities. • In service and parts sales, competitive pricing, efficient utilisation of customer databases, familiarity with manufacturer's brands and models and the quality of our customer service enables us to mitigate the impact of our competitors' activities.

DIRECTORS

The directors of the Company are listed on page 9. 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 Directors' Remuneration Report on pages 54 to 64. The UK Corporate Governance Code and the Company's Articles of Association require directors to retire by rotation or, in the case of non-executive directors who have served more than nine years, annually. The notice of meeting describes the business of the Annual General Meeting and includes details of those directors proposed for re-election. Following the performance evaluation of individual directors, the Board has concluded that the Chairman, Mr M T Davies, who is the only non-executive director standing for re-election at this year's AGM, continues to perform effectively and demonstrate commitment to his role. Executive directors Mr T G Finn and Miss H C Sykes will retire by rotation and, being eligible, stand for re-election. Each of the non-executive directors, Mr M T Davies, Mr M J Le May, Mr D A L Joyce, Mr I D Coull and Mr M J Egglenton considers himself to have sufficient time to commit to the Company's affairs, notwithstanding other business commitments. Other than ones authorised by the Board under the Company's constitution, none of the directors has any interests which conflict with those of the Company.

At no time during the year did any of the directors have an interest in any contract with the Group, other than routine purchases of vehicles for their own use. 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 2011 shares†	31 December 2010 shares
T G Finn	Beneficial	34,317,691	17,384,496
M S Casha	Beneficial	7,135,869	5,101,972
H C Sykes	Beneficial	2,694,181	1,844,662
T P Holden	Beneficial	637,500	Nil
M T Davies	Beneficial	318,749	150,000
M J Egglenton	Beneficial	200,000	Nil
D A L Joyce	Beneficial	106,250	50,000
I D Coull	Beneficial	100,000	Nil
M J Le May	Beneficial	40,375	19,000
J H Holt*	Beneficial	N/A	125,000

†The number of shares shown represents beneficial holdings, including those shares subscribed for by directors under the rights issue.
*Mr J H Holt retired from the Board on 10 May 2011.

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 2008 and 2011 further details of which appear in the Directors' Remuneration Report. There have been no changes to the directors' interests shown between 31 December 2011 and the publication of this report.

Appointment and replacement of the Company's Directors
The rules for the appointment and replacement of directors are detailed in the Company's Articles of Association. Directors are appointed by ordinary resolution, either 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 47.

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 to its directors indemnities in relation to their duties as directors. Such indemnities are in respect of liabilities incurred by a director in connection with any negligence, default, breach of duty or breach of trust in relation to the company unless the

DIRECTORS *Continued*

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 a director of the Company or an associated company, qualifying third party indemnity provisions and protection against derivative actions.

Compensation for Loss of Office Both the current executive directors' and the current non-executive directors' terms of appointment contain provisions for payments to be made to them if their employment with the Company is terminated as a result of a take-over offer or otherwise 50% or more of the Company's issued share capital is acquired. The proportions and calculation of these entitlements are as follows:-

Role	Based on annual salary/ fees	Based on annual performance related pay
Executive Director	75%	75% of maximum available plus a pro rata amount, equivalent to the unexpired performance period
Non-Executive Director	100%	Not applicable

Copies of the relevant provisions are made available for inspection at the AGM.

SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 1 February 2012 the directors had been advised of the following interests in the shares of the Company:-

Shareholder	Shares	%
Odey Asset Management	366,013,213	27.47
Schroder Investment Management	199,054,046	14.02
Standard Life Investments	109,364,399	7.70
AXA Framlington	77,039,511	5.43
Legal & General Investment Management	55,765,437	3.93

SHARE CAPITAL

As at 31 December 2011, the issued share capital of the Company comprised a single class of share: ordinary shares of 5 pence each. Details of the share capital of the Company are set out in note 10 to the accounts on page 138. The Company issued 751,577,623 new shares during the period under review, relating to the 9 for 8 Rights Issue concluded on 17 August 2011. The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association, and briefly summarised below. The Articles of Association may be obtained from Companies House in the UK or upon application to the Company Secretary.

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, if declared. 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, carries any special voting rights with regard to control of the Company.

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

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

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

Repurchase of Shares Details of movements in the Company's share capital are given in note 4.4 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.

Shares held by the Pendragon Employee Benefit Trust As at 31 December 2011, the Company's Employee Benefit Trust, with Investec Trust (Jersey) Limited, held 20,775,214 shares, representing 1.46% of the total issued share capital at that date. These are used to satisfy options under the Pendragon 1999 Approved Executive Share Option Scheme, the Pendragon 1999 Unapproved Executive Share Option Scheme, the Pendragon 2009 Approved Executive Share Option Scheme, the Pendragon 2009 Unapproved Executive Share Option 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 trustee of the Employee Benefit Trust.

ARTICLES OF ASSOCIATION

The Company's Articles of Association were adopted by special resolution at the Annual General Meeting held on 25 April 2008, and amended by special resolutions passed on 26 June 2009 and 29 April 2010. 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 these resolutions are contained in the notes accompanying the notice of Annual General Meeting.

SIGNIFICANT AGREEMENTS

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

- Franchise Agreements – our dealerships operate under franchised new vehicle dealer agreements and authorised repairer agreements with various vehicle manufacturers and importers. Without a franchise agreement, it is not generally possible to obtain new vehicles from a manufacturer or display vehicle manufacturer trade marks. Whilst some of the franchise agreements contain provisions entitling the vehicle manufacturers to terminate in the event of a change of control, this entitlement is circumscribed by regulation so that generally a vehicle manufacturer cannot terminate a new vehicle franchise agreement 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, an override agreement dated 30 April 2009 and a supplemental override agreement dated 5 July 2011) between the Company and its lenders under which the Company's lenders agreed to make available term and revolving facilities to Pendragon up to an aggregate sum of £266.5 million (as at 31 December 2011). In the event of a change of control, the lenders under this facility are able to cancel the facility and declare all outstanding amounts, together with accrued interest, commission and other amounts, immediately due and payable.

- A Loan Note Purchase Agreement dated 25 February 2004 (as subsequently amended and supplemented by an override agreement dated 30 April 2009 and a supplemental override agreement dated 5 July 2011) in relation to US $110,000,000 9.310% Guaranteed Senior Loan Notes due in 2014, US $67,000,000 9.310% Guaranteed Senior Loan Notes due in 2014 and GBP £17,000,000 Guaranteed Senior Loan Notes due in 2014. In the event of a change of control, the Company must offer to prepay all outstanding loan notes immediately.

CORPORATE SOCIAL RESPONSIBILITY

The Company's approach to corporate social responsibility is set out on pages 52 to 53 of the Corporate Governance Report. No political donations were made (2010: £ 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 2011 was 55 days (2010: 65 days). The Company had no trade creditors.

AUDITORS

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 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
21 February 2012

CORPORATE GOVERNANCE REPORT

Pendragon PLC is committed to maintaining the highest standards of corporate governance. The Board is collectively responsible for the long term success of the Company and for ensuring the Company operates to governance which serves the best interests of the Company. At all times in 2011 the Company complied with the main principles and specific provisions in the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 ("the Code").

STRUCTURE OF THE BOARD AND ITS KEY ACTIVITIES

Role of the Board The Board sets the strategy of the Company and its individual trading businesses and ensures the Company has in place the financial and human resources it needs to meet its objectives.

There is a written schedule of matters reserved for Board decision, summarised below:-

Schedule of matters reserved for decision by the Board

- Business strategy
- Policy on acquisitions and divestments
- Approval of significant capital projects and investments
- Principal terms of agreements for Company's principal banking facilities
- Group policy on taxation and treasury matters (including foreign exchange exposures)
- Group annual budget or financial plan and budget monitoring
- Risk management strategy and internal control and governance arrangements
- Changes to the Group's management and control structure
- Significant changes to accounting policies or practices
- Financial reporting to shareholders
- Dividend policy
- Changes in employee share incentives
- Health and safety policy
- Appointments to the Board and its committees
- Policies relating to directors' remuneration and service
- Prosecution, defence or settlement of material litigation
- Environment policy
- Approval of all circulars, listing particulars and prospectuses
- Any alteration to the share capital of the Company
- Press releases and announcements concerning matters decided by the Board

Operating within prescribed delegated authority, such as capital expenditure limits, the operational running of the Company and its businesses is carried out by the executive directors, led by the chief executive.

The Board delegates certain of its duties to its Audit, Nomination and Remuneration committees, each of which operates within prescribed terms of reference. The responsibilities and composition of the Board's committees are set out on pages 45 to 49 of this Report and in the Directors' Remuneration Report.

The Board has evaluated the performance of its committees, for the year under review. The Chairman and the respective committee chairmen take responsibility for carrying out any actions recommended as a result of that evaluation.

STRUCTURE OF THE BOARD AND ITS KEY ACTIVITIES *Continued*

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, and seek and obtain from the Company information to enable informed judgements to be made and duties adequately discharged.

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-executive directors 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 non-executive directors are each able to devote the amount of time required to attend to the Company's affairs and his duties as a Board member.

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 Company's overall strategy and the Executive Committee's decisions within the Group.

Operational Boards The Group consists of two principal operating divisions, Evans Halshaw for volume franchises and Stratstone for luxury franchises, together with five ancillary divisions (Pinewood, Quickco, California, Chatfields and Leasing). Evans Halshaw and Stratstone are divided by brand into distinct franchise groups, each headed by a National Franchise Director. National Franchise Directors participate in monthly operational review meetings, chaired by the respective Evans Halshaw and Stratstone divisional managing directors. The Chief Operating Officer holds monthly operational review meetings with the leaders of the non-motor business divisions. At each operational review meeting, business performance and the effectiveness of key operating controls are considered.

BOARD COMPOSITION AND INDEPENDENCE

As at 21 February 2012 the Board is made up of four executive directors and five non-executive directors, one of whom is Chairman. Other than the retirement on 10 May 2011 of Mr J H Holt, there were no changes to the membership of the Board during the year under review. There is a clear division of responsibility between the role of non-executive Chairman and chief executive. This is recorded in a written statement available on the Pendragon PLC website, and is reviewed and agreed annually by the Board

BOARD COMPOSITION AND INDEPENDENCE *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 at all Board meetings all conflicts of interest. Any so declared are considered by those directors who have no interest in the matter being considered. In deciding whether or not 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. 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 and subject to annual Board review and may be withdrawn or amended by decision of the non-conflicted directors at any time.

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, including the Chairman, are determined by the Board to be independent. Mr M J Le May is the senior independent director.

The Board maintains and regularly reviews a register of all interests, offices and appointments which are material to be considered in the assessment of the independence of directors and has concluded that there are not, in relation to any director, any relationships or circumstances regarded by the Company as affecting his exercising independent judgement.

Re-election of directors In accordance with the Company's Articles of Association, all directors seek re-election by rotation at least once every three years. Accordingly, each of Mr M T Davies, Mr T G Finn and Miss H C Sykes offers themselves for re-election at the 2012 AGM.

Meetings and Attendance Full meetings of the Board are ordinarily held at least every other month. Additional meetings are held as required. The attendance of Board members who held office during the year is detailed in the table below, reflecting those meetings the director was eligible to attend and the number actually attended.

Director	Board	Ad Hoc†
Non-Executive Directors		
M T Davies	10 /11	5/9
D A L Joyce	10 / 11	5/9
M J Le May	9/11	4/9
I D Coull	10/11	5/9
M J Egglenton	11 / 11	5/9
J H Holt*	5/5	1/1
Executive Directors		
T G Finn	11/ 11	8/9
M S Casha	11 / 11	6/9
H C Sykes	11/ 11	7/9
T P Holden	11 / 11	9/9

* Mr J H Holt retired from the board on 10 May 2011.

† During the year, a number of ad hoc meetings of the Board were held to cover exceptional business in connection with the refinancing and share rights issue, which occurred during July and August. Full attendance at each and every on of these meetings was not considered essential, since a number of them entailed the final approval of matters discussed and agreed in principle at earlier meetings of the Board.

Board committees The Board delegates certain matters to committees of the Board, each of which operates under written terms of reference which specify the powers conferred 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

Full terms of reference of the Pendragon PLC Nomination Committee are available at:-
www.pendragonplc.com/Corporate Profile/Corporate Governance

Our Nomination Committee comprises four independent non-executive directors and the non-executive Chairman.

Members

Mike Davies (Chairman)
Malcolm Le May
David Joyce
Ian Coull
Mel Egglenton

The Nomination Committee is responsible for leading the process for appointments to the Board and meets at least once a year.

The Committee is chaired by Mike Davies and the Company Secretary also attends meetings in her capacity as secretary of the Committee. Where the matters discussed relate to the Chairman, such as in the case of selection and appointment of the Company chairman, the senior independent non-executive director chairs the Committee.

The principal responsibilities of the Committee are as follows:-

- regularly reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any adjustments deemed appropriate;
- prepares the description of the role and capabilities required for a particular Board appointment;
- identifies, and nominates for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- satisfies itself, with regard to succession planning, that processes are in place with regard to both Board and senior appointments; and
- undertakes an annual performance evaluation to ensure that all members of the Board have devoted sufficient time to their duties.

Although the Committee did not meet in 2011, it met on 27 January 2012 when it covered the usual business of the annual meeting of the Committee for 2011.

REMUNERATION COMMITTEE

Full terms of reference of the Pendragon PLC Remuneration Committee are available at:-
www.pendragonplc.com/Corporate Profile/Corporate Governance

Our Remuneration Committee comprises four independent non-executive directors and the non-executive Chairman.

Members	Possible meetings to attend	Actual meetings attended
David Joyce (Chairman)	5	5
Mike Davies	5	5
Malcolm Le May	5	4
Ian Coull	5	5
Mel Egglenton	5	5

The Remuneration Committee determines the remuneration packages of the executive directors and the Chairman, within the policy set by the Board. It liaises with the Nomination Committee to ensure that the remuneration packages for any new directors are consistent with the Company's overall remuneration policy. The Committee is chaired by David Joyce and the Group Legal Advisor acts as secretary to the Committee.

The principal responsibilities of the Committee are as follows:-

- determines and agrees with the Board the framework for remuneration of executive directors;
- ensures that members of executive management are provided with appropriate incentives which align their interests with those of shareholders, and encourage enhanced performance in the short and medium term, as well as achievement of the Company's longer term strategic goals;
- determines targets for any performance related pay schemes; and
- seeks shareholder approval for any long term incentive arrangements.

The Committee met five times in 2011. Details of the work and approach adopted by the Committee are set out in the Directors' Remuneration Report on pages 54 to 64.

AUDIT COMMITTEE

Full terms of reference of the Pendragon PLC Audit Committee are available at:-
www.pendragonplc.com/Corporate Profile/Corporate Governance

Our Audit Committee comprises four independent non-executive directors.

Members

Members	Possible meetings to attend	Actual meetings attended
Mel Egglenton (Chairman)	5	5
Malcolm Le May	5	3
David Joyce	5	4
Ian Coull	5	5

Other regular attendees at the discretion of the Chairman of the Committee include:-

Finance Director;
Group Financial Controller;
Head of Internal Audit;
Representatives of the Company's External Auditors

The Committee is chaired by Mel Egglenton and the Company Secretary also attends meetings in her capacity as secretary to the Committee. The Chairman of the Committee is considered by the Board as having recent and relevant financial experience. The Audit Committee meets at least three times a year.

The Committee's meetings in quarters one and three coincide with the Company's reporting timetable for its audited financial statements and unaudited interim condensed financial statements respectively. During these meetings the Committee:-

- reviews the drafts of the financial statements and preliminary and interim results announcements and;
- considers the reports of the external auditors on the unaudited interim condensed financial statements and the full-year audited financial statements.

The Committee's third meeting is primarily concerned with:-

- reviewing the Company's systems of control and their effectiveness;
- significant corporate governance issues such as those relating to the regulation of financial services;
- the external audit plan for the year;
- reviewing the external auditor's performance; and
- reviewing the audit fee.

The Committee met five times in 2011. It has reviewed the effectiveness of the Company's system of internal control and financial risk management during the year ended 31 December 2011, including consideration of reports from both the internal and external auditors and from the Risk Control Group, including the review of the Company's key risks 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 the Board's high level risk review performed during the year.

ANTI-BRIBERY

During the year, as well as its routine business, the Audit Committee has assessed the suitability of the Company's controls designed to combat bribery, in order to satisfy itself of the adequacy of the Company's systems and procedures for the prevention of bribery and corruption, particularly in the light of the Bribery Act 2010. It has reviewed and recommended the Board to adopt the Company's Anti-Bribery value statement. This has been adopted and appears on the Company's website:-

www.pendragonplc.com/Corporate Profile/Corporate Governance

WHISTLEBLOWING

The Audit Committee has reviewed the Company's arrangements for its employees to raise, in confidence, concerns about possible improprieties in relation to financial reporting, suspected fraud and dishonest acts or other similar matters, commonly known as "whistleblowing". The Audit Committee reviews at least twice a year all matters reported under the Company's whistleblowing arrangements, together with any follow-up action taken. It also reviews the effectiveness of the Company's procedures for the reporting and recording of suspected improprieties, bribery 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 those in relation to regulated activities in the areas of general insurance mediation regulated by the FSA, fraud, theft and bribery, whistleblowing and money laundering. The Company's Anti-Fraud, Theft and Bribery Policy and Anti-Money Laundering Policy appear on the Company's website:-

www.pendragonplc.com/Corporate Profile/Corporate Governance

RISK MANAGEMENT AND INTERNAL CONTROLS

Accountabilities 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 the Risk Control Group, a committee of the Executive Board which is made up of three executive directors and the Group's head of IT, and supplemented by the co-option of senior audit, HR, IT and Compliance personnel, as required from time to time.

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 made during the year to the Company's business strategies. The Audit Committee monitors the work of the Risk Control Group, which oversees the effective implementation of new measures designed to mitigate or meet any specific commercial and other risks or threats. The Risk Control Group's work during the year has not identified any weakness in controls which would have a material effect on the Group's business.

RISK MANAGEMENT AND INTERNAL CONTROLS *Continued*

Non-Audit Services provided by External Auditor The Committee has considered the Company's policy on the use of the Company's auditors to provide non-audit services. The Company's objective is to ensure that all non-audit work is delivered on time, meets the Company's aims and requirements, and demonstrates good quality and value for money. Accordingly, the Company does not exclude its auditors from tendering for and undertaking non-audit services in areas considered by the Committee to be appropriate. The Company does not award contracts for non-audit services to the Company's auditors where there is any perceived conflict of interest. Where appropriate, procurement of non-audit services is market tested through a formal tender process. Details of the non-audit work performed by the Company's auditors during the year are set out in note 2.5 to the financial statements on page 82. The circumstances giving rise to an increase this year in the level of fees for non-audit work were the planned refinancing of the Group, the associated rights issue and the implementation of the pensions special purpose vehicle Central Assets Reserve, each of which formed a key element of the strategy for the financing of the Group's activities.

Effectiveness and Independence of External Auditor During the year, the Audit 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 and reported his findings to the Committee. The review concluded that the external auditors were performing their functions effectively and the Committee recommended to the Board that they be re-appointed.

The Audit 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 2.5 to the financial statements on page 82. The Committee has concluded that the external auditor firm's provision of non-audit services has not impaired audit independence.

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 Company's Annual General Meeting ("AGM").

BUSINESS AT THE ANNUAL GENERAL MEETING

As well as dealing with formal business, the Company takes the opportunity afforded at the AGM to provide up-to-date information about the Company's trading position and to invite and answer questions from shareholders on its policies and business. At the AGM, a separate resolution is proposed for each substantive matter. The Company's annual report and financial statements are despatched to shareholders, together with the Notice of AGM, giving the requisite period of notice. The business being proposed at the AGM will be summarised in the Notice of AGM, which will be issued to shareholders giving not less than the requisite period of notice.

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 35 of the Directors' Report and section 1 of the notes to the Financial Statements, together with the directors' assessment of going concern.

CORPORATE SOCIAL RESPONSIBILITY

Involvement and Development The Group continues to recognise the importance of good communications and relations with its team members, since 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 renewed in 2006 and 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 2011 a total of 1,441 team members (16.05%) participated in ownership of shares and/or schemes linked to the Company's share performance (2010: 20.16%).

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. DVD, internal website messaging and face to face presentations as well as electronic newsletters keep team members up-to-date with the Company's strategy and performance. The Group's leaders channel these communications. 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. During the year, the Company has increased the breadth and variety of incentive programmes aligned to its business objectives and experienced increased team member engagement with these programmes.

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, the Group is a sponsor and fundraiser for "Sparks", the children's medical research charity. In addition, individual team members and the Group's local businesses organise charity events to support local schools, hospitals and a wide variety of charities as well as Comic Relief, Sports 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. During the year, the Company has continued to be registered with and has complied with its obligations under the Department of the Environment's carbon reduction commitment scheme.

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's health and safety policy is available on the Pendragon PLC website.

The Company encourages its team members to report all accidents and near misses, whether serious or not. This allows the Company to conduct suitable investigations, carry out any relevant corrective action and to assess the need for any new (or adaptations to existing) controls.

CORPORATE SOCIAL RESPONSIBILITY *Continued*

Diversity and Equal Opportunities The Company is an equal opportunity employer and is committed to ensuring that our workplaces are free from unlawful or unfair discrimination within the framework of the law. Pendragon aims to ensure that its team members achieve their full potential and that all employment decisions are taken without reference to irrelevant or discriminatory criteria throughout the whole of the recruitment, selection and employment. The Company's diversity and equal opportunities policy is available on the Pendragon PLC website.

www.pendragonplc.com/Corporate Profile/Corporate Governance

DIRECTORS' REMUNERATION REPORT

The Company's remuneration policy is determined by the Board. The Remuneration Committee has considered the Directors' Remuneration Report and recommended it for adoption by the Board. This Report is the subject of an advisory vote at the Company's forthcoming Annual General Meeting.

REMUNERATION COMMITTEE

In 2011, the Remuneration Committee comprised the following independent non-executive directors, biographical details of whom are set out on page 9 "Our Board":

Mr D A L Joyce (Chairman), Mr M T Davies, Mr J H Holt (until his retirement from the Board in May 2011), Mr M J Le May, Mr I D Coull and Mr M J Egglenton (the "Committee"). The Committee meets at least once a year and holds further meetings as often as is necessary to discharge its duties. Within the policy set by the Board, the Committee determines the remuneration packages of the executive directors and of the Chairman. It liaises with the Nomination Committee to ensure that the remuneration packages for any new directors are consistent with the Company's overall remuneration policy. The Committee also determines and sets the performance targets for any performance related incentives applicable to executive directors and determines the policy for, and scope of, their pension arrangements. It sets executive directors' service contract terms including basic salary, benefits in kind and severance. The Committee is also responsible for ensuring the Company gives due regard to best practice and complies with all applicable regulation in matters of executive remuneration. No director participates in deliberations concerning his own remuneration. Committee members' attendance is set out on page 48 of the Corporate Governance Report. The Committee operates within specific terms of reference, which are available on the Company's website.

ADVISORS

The Committee appointed Hewitt New Bridge Street ("HNBS") in 2005 as its independent consultant to provide advice on directors' remuneration and incentive arrangements. HNBS did not provide any other type of service to the Company during the year. The Company's legal advisers on share schemes and long term incentives are Pinsent Masons LLP. The chief executive, Mr T G Finn, provided internal advice to the Committee but not in respect of his own pay. The secretary to the Committee is Richard Maloney, the Legal Advisor.

REMUNERATION POLICY AND 2011 DECISIONS

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

The remuneration policy is designed to ensure not only that executive directors' incentive arrangements have the potential to provide a greater reward than base salary in return for demonstrable performance, but also properly align executives' rewards with the interests of shareholders.

To ensure an ongoing strong connection between reward and performance, all incentive arrangements are linked directly to business specific measures and the performance criteria set for full vesting of incentives are suitably challenging.

Executive directors' remuneration is made up of several elements, some of which are a fixed entitlement and some performance related. Every year the Committee reviews the balance of fixed and variable pay. In 2011 it remained satisfied that the appropriate balance has been achieved, and that the remuneration policy, as applied, has achieved the necessary alignment with the interests of shareholders.

Fixed remuneration The fixed elements of the remuneration package are:

- *Base salary*: This is set by the Committee on a director's appointment and thereafter reviewed annually. The levels are set, and any changes upon review are determined, by reference to the individual's skill, experience, responsibilities and contribution.

- *Benefits*: The executive directors receive life assurance, private health cover, professional subscription costs, a contribution to home telephone costs and the provision of one fully expensed car. They can also opt to receive a second car, provided at the Company's expense, save as to fuel costs.

- *Pensions*: New executive directors are eligible to participate in the Company's defined contribution pension scheme. The Company's contribution is set in individual cases and, for the current eligible director,

REMUNERATION POLICY AND 2011 DECISIONS *Continued*

Mr T P Holden, continues to be 10% of his basic salary. Mr Finn, Mr Casha and Miss Sykes participated in the Company's defined benefits pension scheme before withdrawing from it in 2006. Each of them continues to receive a payment in lieu of pension contribution equivalent to circa 26% of their base salary. This payment is not consolidated into the base salary for the purposes of any incentive or variable pay arrangements and will be monitored as a percentage of base salary. Mr Casha and Miss Sykes remain entitled to a deferred pension, calculated up to the date of leaving the pension scheme, as set out on page 63.

- *Termination payments*: As recorded in the 2010 Directors' Remuneration Report, the Company has adopted the policy, for all appointments of new directors, not to include any entitlement to any predetermined compensation or severance payments in the event of cessation in office or employment as a consequence of a take-over.

2011 SUMMARY

Each year, the Committee's work involves:

(a) assessing the extent to which performance measures for *existing* performance-related awards have been met, and determining the extent to which such awards should vest, according to their terms; and

(b) having regard to the Company's short and long term business objectives, selecting the types and proportions of performance-related rewards which best incentivise the achievement of those objectives, setting appropriate performance measures and vesting periods, and making awards accordingly.

The Committee's work in 2011

The Committee met five times in 2011 and considered a number of subjects. These included:-

- proposals for and payment of executive directors' annual performance related pay
- review of the base salaries of the executive directors
- review of the awards to be made under the Group's long term incentive arrangements
- adjustments to long term incentive awards and share options following the rights issue
- new awards to below board executives under the Group's executive share option schemes.

Details of the decisions made and awards granted appear later in this Report.

Fixed remuneration The Committee remained satisfied that the base salaries (which remain at 2007 levels) are appropriate and no changes were made to these, nor to benefits or pension-related entitlements.

The Committee's work therefore concentrated on setting appropriate levels of variable remuneration and the associated performance conditions for vesting.

Variable remuneration All elements of executive directors' variable remuneration continue to be performance related. Within the Company's remuneration policy, the available types of variable remuneration are: (i) annual performance related pay; and (ii) long-term incentives, which may take the form of conventional market value share options, or participation in a shared ownership share plan or in a long-term incentive plan entailing the award of fully-paid shares. Under normal circumstances, awards under the three available types of long-term incentive are not made cumulatively in any one year. Each is described in detail on page 59.

VARIABLE REMUNERATION DECISIONS IN 2011

Annual performance related pay Awards up to a maximum of 100% of salary are payable on achievement of declared performance measures). Whereas, for 2010, these were EBITDA and year end closing net debt, in view of the challenging market conditions for the raising of capital, the Committee recalibrated these to make up, in aggregate, 50% of the available award, and allocated the remaining 50% to successful completion of the Company's re-financing. Vesting of the re-financing related bonus was subject to an underpin linked to the achievement of the EBITDA target. The 2011 EBITDA and debt measures therefore reflected 25% each and their levels were set in the context of the Company's business plan for the four years ending 2014, adopted for the purposes of the 2011 re-financing. This business plan therefore underwent external scrutiny. The Committee remained of the view that, for 2011, the two established performance measures remained appropriate, as they continued to be key annual performance indicators for the Company. The Committee regarded the successful re-financing of the Company as a critical action for 2011 and that the weighting of 50% allocated to this element reflects the interests of shareholders.

The performance for 2011 reflected full achievement of the EBITDA target and re-financing condition. The executives were awarded 75% of the available annual performance related award.

The Committee is comfortable with the level of annual performance related pay payable for 2011, given the rigour, detailed analysis and external scrutiny applied in setting the basis for the targets, the level of stretch applied for achievement of the maximum available entitlement, and the degree of challenge presented by the re-financing exercise.

Long-Term Incentives The Company's policy on equity-based incentive awards for executive directors and below Board executives was formed following the Committee's 2009 review of the range of award schemes available to the Company. It 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, but should first consider which of its two other alternative incentive arrangements might be appropriate for the performance period in question. These are: the joint ownership share plan (ExSOP) adopted in 2009, under which the first awards were made in 2010; and the Long Term Incentive Plan ("LTIP") adopted in 2006, under which awards (now lapsed) were made in 2006, 2007 and 2008. Further details of all available long term incentive arrangements appear on pages 59 and 60.

LONG-TERM INCENTIVE AWARDS MADE IN 2011

The Committee reviewed the alternatives, among the three available incentive plans. The Committee concluded that the features of the LTIP provide the most appropriate incentive and alignment of executive reward with shareholders' interests, given the element of deferral entailed, and, further, that eligibility for a matching award is dependent on the participant investing his annual performance related pay in Company shares. The Committee's policy on setting challenging performance targets remained unchanged. The Committee believes that the use of conditionally awarded shares, subject to challenging targets, focuses executives on achieving share price growth as well as meeting key elements of the Company's long term business objectives.

As a matter of policy, performance conditions for any long term incentive awards will continue to be set at the time of the award, at levels which ensure that the incentives encourage enhanced performance in the short and medium term, as well as the achievement of the Company's longer term strategic goals. For the 2011 LTIP awards, the Committee adopted broadly the approach for setting targets established following the Committee's 2010 consultation with shareholders. A challenging sliding scale of EPS targets was designed. The targets adopted, as set out in the table below, apply to both Performance Shares and Matching Shares awarded under the LTIP. The LTIP awards made to individuals are recorded in the table on page 60.

LTIP 2011 Performance Conditions

2013 Cumulative Adjusted EPS*	Percentage Vesting
Below 4.77p	0%
4.77p	60%
5.89p and above	100%

Straight-line vesting between performance points.

*Cumulative Adjusted EPS will be calculated by adding together the adjusted EPS for each of the financial years ending 31 December 2011, 2012 and 2013. If the performance condition is not satisfied, none of the LTIP award shares will vest.

LONG-TERM INCENTIVE AWARDS MADE IN 2011 *Continued*

At the time of making the 2011 LTIP awards, the Committee set stretching performance targets, with the expectation that adjustments would need to be considered following any capital raising. Following the rights issue, the Committee adjusted the targets so as to maintain at least the same challenging degree of stretch as that inherent in the targets as originally set, reflecting both the anticipated interest savings and the increased share capital. The table on page 56 shows the adjusted performance targets. The table on page 60 reflects the outstanding awards as so adjusted.

GROUP PAY & EMPLOYMENT CONDITIONS

Remuneration levels for employees across the Group have been subject to only very selective increases since 2007. Consistent with this, and reflecting the challenging economic conditions of recent years, no increase to directors' basic remuneration or benefits has been made in the period since 2007 and variable pay elements have been conditional on achievement of more stretching targets. The elements which make up the remuneration of executive directors and below board employees are broadly similar. The Group operates a wide range of incentive plans which feature in employee remuneration. All employees are eligible to participate in rewards related to share price performance and the more senior the role, the more significant is this element. The Board considers that the Group's remuneration practices achieve significant alignment between the interests of employees at all levels and those of the shareholders.

REMUNERATION FOR 2012

Fixed remuneration No changes to basic remuneration or benefits in kind are under consideration.

Variable remuneration Continuing its approach of strongly linking rewards to performance, the Committee will adopt the same approach as in the prior year so that vesting conditions for both elements of variable remuneration are suitably challenging.

To provide a more market-competitive bonus, the available annual performance related pay is 150% of base salary with the proviso that maximum available reward only accrues for performance in excess of the Company's strategic plan. Payouts are for achieving demanding on-target performance, measured against underlying profit (50%) and year end net debt (50%). The Committee considers that this structure for the bonus opportunity reflects the competitive market, will provide a stronger incentive to deliver against performance metrics that reflect the Company's strategic objectives, and improve motivation. There will be disclosed each year in the directors' remuneration report the basis on which any payable awards were achieved.

The Committee has once again selected the LTIP as the most appropriate long term incentive scheme under which to make awards, an approach unchanged from 2011. It is expected that challenging performance conditions will be attached, designed on similar principles to the prior year's, and set at the time of the awards, which will be announced when made. If the performance condition is not satisfied, no 2012 LTIP award shares will vest.

NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

The Board reviews annually the Company's policy on non-executive directors' remuneration and did so during 2011. Having increased non-executive directors' fees in 2010, the Board was satisfied that their level is appropriate. Non-executive remuneration continues to be confined to payment of fees. There is no performance related element of non-executive directors' remuneration. Any non-executive director may opt to receive the provision of a motor vehicle for his use, fully expensed save as to fuel, as a benefit in kind instead of part of his annual fees. The Board considers the remuneration of each of the non-executive directors to be consistent with the time commitments associated with their functions and duties and wider market practice among companies of a comparable size.

In line with accepted practice, additional annual fees are paid to the respective chairmen of the Audit Committee and Remuneration Committee and to the senior independent director, reflecting the additional work required of these roles.

DECISIONS ON NON-EXECUTIVE DIRECTORS' PAY

Chairman's Annual Fees Having undertaken the most recent review of the annual fees payable for the office of Chairman of the Company in October 2010, the Committee did not conduct a review of his fees during the year.

Committee chairmen fees The fees payable to the chairmen of Board committees were reviewed by the Board: the fee level for the chairman of the Remuneration Committee was considered to be appropriate for 2011; the annual fee for the chairman of the Audit Committee was increased to £10,000 from the appointment of Mr M J Egglenton to that role in May 2011.

ADJUSTMENTS TO SHARE INCENTIVE PLANS

Following the Company's rights issue, the Committee approved adjustments to share-based options and awards made under the Company's incentive schemes in accordance with their respective provisions, in each case following receipt of appropriate professional advice. Adjustments were applied to ensure, so far as practicable, that the value of the outstanding options and awards remained the same as their value at the time of the original grant.

Adjustment to conventional share options Awards under the all-employee sharesave scheme and the Pendragon 2009 Approved Executive Share Option Scheme, each of which is approved by HM Revenue and Customs ("HMRC"), were adjusted by a theoretical ex-rights price ("TERP") formula approved by HMRC, details of which are set out in Note 1 to the table on page 60. For consistency, the same adjustment was applied to the Pendragon 2009 Unapproved Executive Share Option Scheme.

Adjustment to LTIP Awards The Committee also adjusted the 2011 LTIP performance share awards by the same TERP-based formula applied to the Pendragon Sharesave and Executive Share Option Schemes referred to above. The 2011 LTIP matching share awards were adjusted to match the additional investment by participants, each of whom took up all the rights to acquire new issue shares applicable to his 2011 LTIP investment shares (originally acquired in order to qualify for a 2011 matching share award). The Committee believes this to be appropriate, since it reflects the principle of expecting and encouraging the executive directors to invest their own funds in shares to align their interests with those of the shareholders as a whole.

ADJUSTMENTS TO ExSOP AWARDS

Numbers of shares The rules of the joint ownership share plan and associated joint ownership agreement (JOA) deal with the effect of a rights issue on the jointly-owned shares in existence at the time of the rights issue. The numbers of shares subject to the executive directors' ExSOP entitlements are set out in the table on page 60.

Performance condition In accordance with the JOA, the Committee carefully considered the impact of the rights issue on the ExSOP award performance condition. The Committee adjusted the cumulative EPS target, reflecting both the anticipated interest saving and the increased share capital, so as to maintain at least the same challenging degree of stretch as that inherent in the target as originally set. The adjusted performance condition is set out in the table below.:-

ExSOP Performance Conditions

2012 Cumulative Adjusted EPS*	Percentage Vesting
Below 6.55p	0%
6.55p	30%
7.39p	100%

Straight-line vesting between performance points.

*Cumulative Adjusted EPS will be calculated by adding together the adjusted EPS for each of the financial years ending 31 December 2010, 2011 and 2012. If the performance condition is not satisfied, the ExSOP shares will not vest.

FURTHER INFORMATION ON LONG-TERM INCENTIVES

Policy on vesting of awards When assessing the extent to which awards of any type of long-term incentive vest, the audited results of the Company are considered in relation to targets set as described above (typically EPS). The results are reviewed by the Committee.

Market value share incentives The Company operates two distinct types of market value share plan: conventional executive share options, which have featured throughout the Company's history, the current plans having been approved by shareholders at the Company's 2009 AGM; and the new ExSOP joint ownership share plan, first introduced after receiving shareholder approval in 2009. Each is described below.

Share Options All senior team members, including executive directors, are eligible to participate in the Pendragon 2009 Approved Executive Share Option Scheme and the Pendragon 2009 Unapproved Executive Share Option Schemes ("Schemes").

The Pendragon 2009 Approved Executive Share Option Scheme is a HMRC approved discretionary share option plan. Under this, share options can be granted to team members over shares with an initial market value of up to £30,000. The earliest exercise date is usually three years from grant. Upon exercise, if there has been growth in value of the shares in the period since the date of grant, any gain made normally qualifies for exemption from income tax and national insurance contributions.

The Pendragon 2009 Unapproved Executive Share Option Scheme is designed to be used to grant awards to team members who already have awards under a HMRC 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 2011.

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. No employee received any award under the sharesave scheme in 2011.

Details of executive directors' outstanding and unexercised share option and sharesave awards appear in the table on page 60.

Pendragon 2009 Executive Shared Ownership Plan This incentive plan (the "ExSOP") was approved by shareholders in 2009. The only awards to date were made in 2010. ExSOP participants acquire, for a payment, a joint interest in fully paid Pendragon ordinary 5 pence shares the subject of the award. Vesting of the participant's interest in ExSOP shares takes place on achievement of a challenging EPS target, set at the time of the award.

Long Term Incentive Plan The Pendragon Long Term Incentive Plan ("LTIP"), first adopted in 2006, affords executive directors the potential to receive fully paid shares in the Company, firstly (termed "Performance Shares") in an amount up to 100% of base salary; and secondly (termed "Matching Shares") dependent on their making their own investment in the Company's shares, up to the total amount of their annual performance related pay award for the preceding year. In each case, LTIP award shares vest after successful completion of a prescribed performance period, subject to achievement of a performance condition.

The extraordinary market and economic conditions of 2008 and 2009 rendered the performance conditions for the LTIP awards made up to 2008 unattainable and all of these have lapsed. A new LTIP award was made in 2011. Details appear in the table on page 60.

Eligibility for Matching Shares under the LTIP arises if the executive invests his annual performance related pay or other personal resources in Pendragon shares ("Investment Shares"). For the purpose of matching, an executive may invest no more than the amount of the annual performance related pay he received for the preceding year. The Company then "matches" any Investment Shares purchased, by making an award over shares with the same pre-tax value as the amount used to buy the Investment Shares. Performance Share awards may be made irrespective of whether the executive chooses to invest in the Company's shares to achieve a Matching Shares award.

Each LTIP award made has adopted an adjusted earnings per share ("EPS") growth target because it is a key internal measure of long term company performance. Vesting conditions relating to EPS performance achievement are the same for awards of both Performance Shares and Matching Shares. Awards vest on the third anniversary of their grant date: (a) provided the executive is still employed by Pendragon; and (b) to the extent that the relevant EPS performance conditions have been satisfied.

If these requirements are fulfilled, in respect of Matching Shares only, these vest to the extent that the Investment Shares purchased by the executive have been retained for the three year vesting period.

Details of LTIP awards made to the executive directors are set out on page 60.

DIRECTORS' INTERESTS IN SHARE OPTIONS, LONG TERM INCENTIVE PLAN AND ExSOP *(audited information)*

(1)Scheme / Award Type	(2)Award interest at 01.01.11	(3)shares lapsed during year	(4)shares granted during year	(5)shares interest at 31.12.11	(6)price (pence)	(7)which exercisable/ exercise period (if applicable)
T G Finn						
Sharesave Scheme[1]	7,357	-	-	10,303	17.61	01.08.12 - 31.12.12
ExSOP 2010[2]	3,863,921	-	-	4,764,918	n/a	16.03.13
LTIP Investment Shares 2011[3]	-	-	748,730	1,591,051	n/a	n/a
LTIP Matching Shares 2011[4,6]	-	-	1,480,513	3,235,348	n/a	05.03.14
LTIP Performance Shares 2011[5]	-	-	1,974,020	2,764,644	n/a	05.03.14
LTIP Investment Shares 2008	191,017	191,017	-	-	n/a	n/a
LTIP Matching Shares 2008	336,828	336,828	-	-	n/a	n/a
LTIP Performance Shares 2008	1,439,440	1,439,440	-	-	n/a	n/a
M S Casha						
ExSOP 2010[2]	2,131,623	-	-	2,647,177	n/a	16.03.13
LTIP Investment Shares 2011[3]	-	-	415,961	883,917	n/a	n/a
LTIP Matching Shares 2011[4,6]	-	-	822,507	1,797,415	n/a	05.03.14
LTIP Performance Shares 2011[5]	-	-	1,096,678	1,535,914	n/a	05.03.14
LTIP Investment Shares 2008	106,122	106,122	-		n/a	n/a
LTIP Matching Shares 2008	187,129	187,129	-	-	n/a	n/a
LTIP Performance Shares 2008	799,689	799,689	-	-	n/a	n/a
H C Sykes						
Sharesave Scheme[1]	7,357	-	-	10,303	17. 61	01.08.12 – 31.12.12
ExSOP 2010[2]	532,906	-	-	661,794	n/a	16.03.13
LTIP Investment Shares 2011[3]	-	-	207,980	441,958	n/a	n/a
LTIP Matching Shares 2011[4,6]	-	-	411,252	898,706	n/a	05.03.14
LTIP Performance Shares 2011[5]	-	-	548,339	767,957	n/a	05.03.14
LTIP Investment Shares 2008	53,062	53,062	-		n/a	n/a
LTIP Matching Shares 2008	93,566	93,566	-	-	n/a	n/a
LTIP Performance Shares 2008	399,844	399,844	-	-	n/a	n/a
TP Holden						
Approved Executive Share Option Scheme[7]	75,000	75,000	-	-	7.42	
Sharesave Scheme[1]	7,357	-	-	10,303	17.61	01.08.12 – 31.12.12
ExSOP 2010[2]	1,510,762	-	-	1,876,154	n/a	16.03.13
LTIP Investment Shares 2011[3]	-	-	294,807	626,464	n/a	n/a
LTIP Matching Shares 2011[4,6]	-	-	582,941	1,273,893	n/a	05.03.14
LTIP Performance Shares 2011[5]	-	-	777,257	1,088,560	n/a	05.03.14

1 Sharesave options under the Pendragon 2008 Sharesave Scheme that have no performance conditions. Sharesave options were granted for nil consideration. The 2011 opening positions shown (column (2)) and award shares granted during the year (column (4)) are the unadjusted amounts; and the 2011 closing positions (column (5)) shown are the adjusted amounts following the rights issue, whereby numbers of options were increased by a factor of 1.400515132 and the option price (column (6)) correspondingly reduced in accordance with the Scheme rules and relevant HMRC approvals.

2 ExSOP awards involve the acquisition of shares jointly by the participant and the Company's Employee Trust on terms that, to the extent that the performance condition described on page 58 is satisfied, the participant can benefit from any growth in the market value of the jointly-owned shares in excess of a pre-determined hurdle. Under the 2011 rights issue, rights to acquire unpaid new shares attributed to the ExSOP Shares were sold in the market and all the proceeds reinvested in fully paying the appropriate number of new shares, at the rights issue price. The acquired shares then also became subject to the joint ownership agreement (JOA), resulting in a 24% increase in each participant's joint share interest within the ExSOP. A limited adjustment was made to the hurdle, in accordance with the JOA.

3 LTIP Investment Shares purchased by executive directors: (a) at the time of the award, from annual performance related pay and (b) pursuant to the rights issue, by the participant taking up and fully paying, from his own funds, the rights issue shares attributable to the Investment Shares at (a). These are all owned outright by the participant.

4 LTIP Matching Shares match LTIP Investment Shares with an award over shares with the same pre-tax value as monies used to purchase the Investment Shares. To the extent that the performance condition described on page 56 is satisfied, LTIP Performance Shares and (where held) LTIP Matching Shares vest on the third anniversary of the grant date.

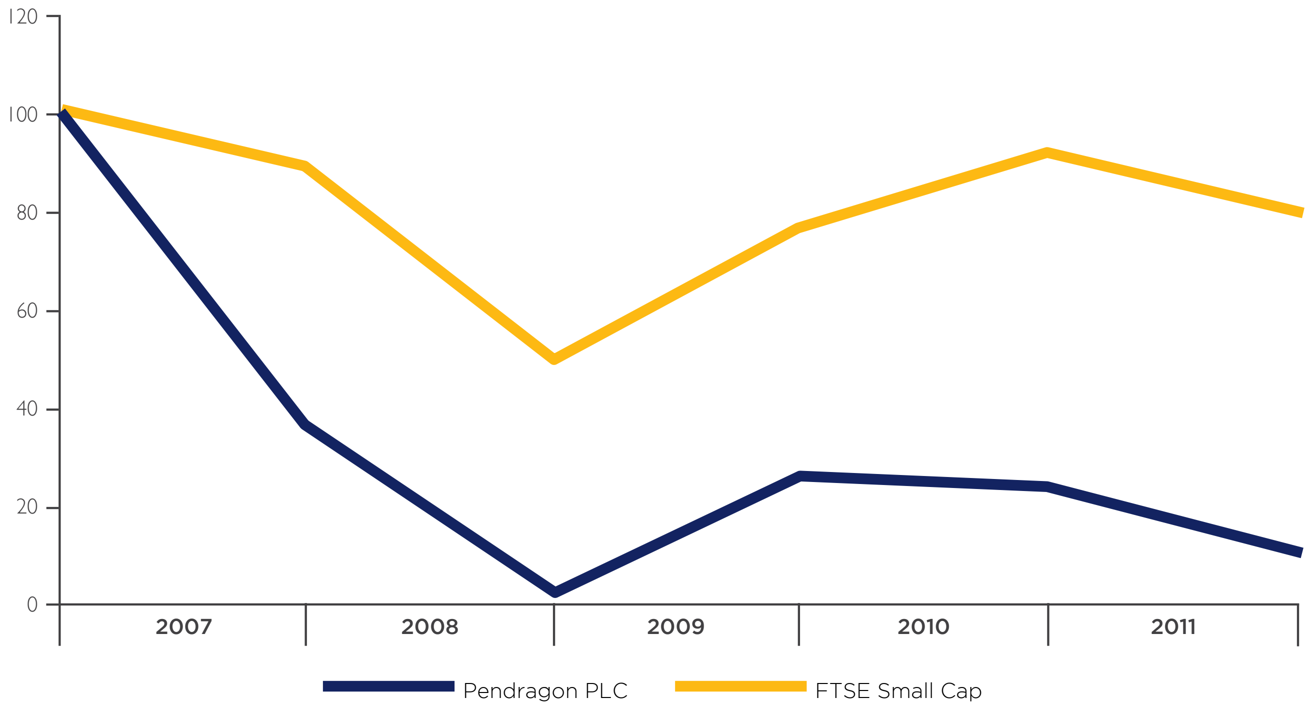
5 The 2011 LTIP performance share awards were adjusted, applying the formula determined from the theoretical ex-rights price of a Pendragon ordinary share. The number of shares subject to each award was increased by a factor of 1.400515132. The 2011 award shares granted during the year (column (4)) are the unadjusted amounts; and the 2011 closing positions (column (5)) shown are the adjusted amounts following the rights issue.

6 The 2011 LTIP Matching Share awards were adjusted to match the additional Investment Shares acquired by participants pursuant to the rights issue described in note 3 above. The award shares granted during 2011 (column (4)) are the unadjusted amounts; and the 2011 closing positions shown (column (5)) are the adjusted amounts following the rights issue.

7 Awarded under the Pendragon 1999 Approved Executive Share Option Scheme prior to his appointment to the Board; not subject to adjustment, as these have lapsed during the year.

TOTAL SHAREHOLDER RETURN[1]

The graph below shows the total shareholder return ("TSR")[2] on the Company's shares in comparison to the FTSE Small Cap Index (excluding investment companies)[3]. TSR 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 2011. The notes at the foot of the graph give more detail of the TSR calculation.



1 This report is required, pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Schedule 8, Quoted Companies: Directors' Remuneration Report 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 five years ended on 31 December 2011 and reflects the theoretical growth in the value of a shareholding over that period, assuming dividends (if any) are reinvested in shares in the company. The price at which 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 TSR growth of the relevant index over the chosen period, the weighted average of TSR for all the companies in the index is calculated. In this case, it is the FTSE Small Cap 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 Small Cap index has been selected as it represents the equity market in which the Company was a constituent member for the majority of the relevant five year period ending 31 December 2011 detailed above.

SHARE PRICE INFORMATION AND PERFORMANCE

Other than those detailed above, there are no share option or long term incentive schemes in which the directors are eligible to participate. The middle market price of Pendragon ordinary shares at 31 December 2011 was 7.60 pence and the range during the year was 6.8 pence to 19.71 pence.

DIRECTORS' REMUNERATION REPORT

DIRECTORS' EMOLUMENTS FOR THE YEAR TO 31 DECEMBER 2011 *(audited information)*

	Salary fees £000	Committee Chair Fees £000	Performance Related Pay £000	Benefits* £000	Salary supplement in lieu of pension contribution £000	Total emoluments 2011 (excluding pensions) £000	Total emoluments 2010 (excluding pensions) £000
Executive directors							
T G Finn	464	-	348	13	121	946	944
M S Casha	258	-	193	9	67	527	525
T P Holden	183	-	137	14	-	334	342
H C Sykes	129	-	97	6	33	265	265
Non-executive director retiring from the Board during the year							
J H Holt†	14	4††	-	-	-	18	45
Non-executive directors							
M T Davies	150	-	-	-	-	150	66
D A L Joyce	40	5°	-	-	-	45	35
M J Le May	40	3#	-	-	-	43	35
M J Egglenton	40	6‡	-	-	-	46	3
I D Coull	40	-	-	-	-	40	3
Total	**1,358**	**18**	**775**	**42**	**221**	**2,414**	**2,263**

† Mr Holt retired from his position as a non-executive director, Chairman of the Audit Committee and senior non-executive director on 10 May 2011. Accordingly, his emoluments are for the period 01.01.11 – 10.05.2011.

* Benefits include life assurance, private health cover, professional subscriptions, contribution to home telephone costs and the provision of up to two cars (at the director's election), one of which is fully expensed.

†† In relation to chairmanship of Audit Committee, at the annual rate of £7,500 and as senior non-executive director, at the annual rate of £2,500.

° In relation to chairmanship of the Remuneration Committee.

Mr Le May was appointed senior non-executive director on the retirement of Mr Holt on 10 May 2011. Accordingly, his emoluments include fees for that role for the period 10.05.11 – 31.12.11.

‡ Mr Egglenton was appointed Chairman of the Audit Committee on 10 May 2011. Accordingly, his emoluments include fees for that role for the period 10.05.11 – 31.12.11.

PENSIONS

The Pendragon Pension Plan ("Pension Plan") is established for the benefit of the Group's eligible employees. The Pension Plan operates through a trustee company which holds and administers its assets entirely separately from the Group's assets. There is no direct investment in Pendragon PLC. Mr T G Finn, Mr M S Casha and Miss H C Sykes ceased to be active members of the Pension Plan in 2006. The non-executive directors are not eligible to participate in the Pension Plan. Whereas Mr Casha and Miss Sykes remain as deferred members, entitled to a deferred pension calculated up to the date of their leaving the Pension Plan, Mr Finn elected to take early retirement benefits from 8 February 2008 and is a therefore a pensioner member, hence there is no remaining accrued entitlement for Mr Finn.

PENSIONS *continued*

£000	M S Casha	H C Sykes
Total annual accrued pension entitlement at 31.12.10 (p.a.)	147	47
Total annual accrued pension entitlement at 31.12.11 (p.a.)	151	49
Increase in accrued pension during the year excluding inflation (p.a.)	0	0
Increase in accrued pension during the year including inflation (p.a.)	4	2
Transfer value of increase excluding inflation	0	0
Transfer value of accrued benefit at 31.12.10	3,261	615
Transfer value of accrued benefit at 31.12.11	3,618	663
Increase in transfer value over the year	357	48

The pension benefits shown are those which would be paid annually on retirement, based on service until the date the director withdrew from the Pension Plan. The transfer values have been calculated in accordance with actuarial advice and exclude directors' contributions and any additional pension purchased by additional voluntary contributions.

Mr T P Holden participates in the Pendragon Group Pension Scheme, a defined contribution pension scheme, to which the Company makes a contribution of 10% (£18,300) of his basic salary, for his benefit. There were no changes to this entitlement, which remains the same as in 2010.

DIRECTORS' TERMS OF APPOINTMENT

Executive directors are appointed under service contracts of indefinite duration, whereas non-executive directors each have a fixed term appointment renewable upon expiry, at the Company's discretion. From 2010, appointments of new non-executive directors and renewals of existing appointments are on three-year fixed terms. Upon his appointment as senior non-executive director, the term of appointment of Mr M J Le May was extended to expire on 31 December 2012. When considering the re-appointment of a non-executive director, the Board reviews his attendance at and participation in meetings and his overall performance and also takes account of the balance of skills and experience of the Board as a whole.

Name	Commencement	Expiry	Unexpired term at date of Report (months)
M T Davies	04.10.10	31.12.12	10
D A L Joyce	01.01.11	31.12.14	34
M J Le May	01.01.10	31.12.12	10
I D Coull	01.12.10	31.12.13	22
M J Egglenton	01.12.10	31.12.13	22

The service contracts of Mr T G Finn, Mr M S Casha and Miss H C Sykes commenced on 20 December 1999. Mr T P Holden's service contract commenced on 10 December 2009. Each may be terminated by the Company giving one year's notice. The Company would expect any future executive director appointments to contain the same terms as to notice periods.

Each executive director's service contract includes provisions for his protection in the event of a termination arising from a change of control. Non-executive directors' appointments also include protection in the event of termination arising from a take-over. Details of the respective entitlements of both executive and non-executive directors in this regard are set out on page 40 of the Directors' Report. Copies of all directors' service contracts and letter of appointment are available at the Company's AGM for shareholders to view.

FEES FROM EXTERNAL DIRECTORSHIPS

None of the executive directors holds office as a non-executive director of other companies other than in a voluntary or honorary (that is, unpaid) capacity. Accordingly, the Company does not have a formal policy on whether or not an executive director may keep fees gained from holding an external non-executive directorship or similar. This would be decided on a case by case basis.

IMPORTANCE OF SHARE OWNERSHIP

The Company recognises the importance of executive directors' building significant holdings of the Company's shares. To encourage this among executive directors joining the Company after 2005, the Company's share ownership guidelines apply. These require those other than the chief executive to aim, within three years of joining the Board, to have built a stake equal in value to 100% of their annual salary. A future chief executive's expected holding would be 200% of his annual salary.

Whilst commenting on share ownership, I am pleased to report that, at 31 December 2011, 16.05% of the Company's team members were participants in one or more of its share-based incentive plans. In addition, the performance culture that exists throughout the Company's businesses is reflected in the variable pay element of remuneration for employees below Board level, which, for 2011 represented 17.68% of their total cost of employment.

David Joyce
Chairman of the Remuneration Committee
21 February 2012

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 judgements 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 financial statements

We confirm that to the best of our knowledge:-

- the financial statements, prepared in accordance 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 the undertakings included in the consolidation taken as a whole; and
- the management report (which comprises the Directors' Report and the Operational Review) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by order of the Board
Tim Holden
Finance Director
21 February 2012

We have audited the financial statements of Pendragon PLC for the year ended 31 December 2011 set out on pages 67 to 139. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 65, 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, and express an opinion on, 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 website at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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.

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 51, in relation to going concern;
- the part of the Corporate Governance Statement on pages 44 to 53 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

M Steventon (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants, One Snowhill, Snow Hill Queensway, Birmingham, B4 6GH
21 February 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	Underlying £m	Non-Underlying £m	**2011 £m**	Underlying £m	Non-Underlying £m	2010 £m
Revenue	2.1	3,418.2	47.6	**3,465.8**	3,534.3	40.7	3,575.0
Cost of sales		(2,950.1)	(45.1)	**(2,995.2)**	(3,037.8)	(37.8)	(3,075.6)
Gross profit		468.1	2.5	**470.6**	496.5	2.9	499.4
Operating expenses	2.2	(393.7)	0.7	**(393.0)**	(421.4)	(15.1)	(436.5)
Operating profit before other income		74.4	3.2	**77.6**	75.1	(12.2)	62.9
Other income - gains on the sales of businesses and property	2.6	-	0.4	**0.4**	-	0.3	0.3
Operating profit		74.4	3.6	**78.0**	75.1	(11.9)	63.2
Finance expense	4.3	(44.2)	(38.8)	**(83.0)**	(50.8)	(21.2)	(72.0)
Finance income	4.3	0.6	28.4	**29.0**	0.9	18.9	19.8
Net finance costs		(43.6)	(10.4)	**(54.0)**	(49.9)	(2.3)	(52.2)
Profit before taxation		30.8	(6.8)	**24.0**	25.2	(14.2)	11.0
Income tax credit / (expense)	2.7	(5.7)	21.5	**15.8**	(9.1)	3.7	(5.4)
Profit for the year attributable to the shareholders of the parent		25.1	14.7	**39.8**	16.1	(10.5)	5.6
Earnings per share							
Basic earnings per share*	2.8			**3.7p**			0.6p
Diluted earnings per share*	2.8			**3.6p**			0.6p

Non GAAP measure:			
Underlying basic earnings per share*	2.8	2.3p	1.8p
Underlying diluted earnings per share*	2.8	2.2p	1.7p

* Restated to reflect the impact of the bonus element of the Rights Issue.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	**2011 £m**	2010 £m
Profit for the year		**39.8**	5.6
Other comprehensive income:			
Foreign currency translation differences of foreign operations		**0.2**	0.1
Defined benefit plan actuarial gains and losses	5.1	**(2.7)**	19.9
Income tax relating to defined benefit plan actuarial gains and losses	2.7	**0.7**	(5.6)
Adjustment in respect of minimum funding requirement on defined benefit plans	5.1	**16.5**	(21.3)
Income tax relating to adjustment in respect of minimum funding requirement on defined benefit plans	2.7	**(4.4)**	6.0
Other comprehensive income for the year, net of tax		**10.3**	(0.9)
Total comprehensive income for the year attributable to the shareholders of the parent		**50.1**	4.7

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	Non-controlling interests £m	**Total £m**
Balance at 1 January 2011	33.4	56.8	2.5	12.6	(0.5)	6.4	-	**111.2**
Total comprehensive income for 2011								
Profit for the year	-	-	-	-	-	39.8	-	**39.8**
Other comprehensive income for the year, net of tax	-	-	-	-	0.2	10.1	-	**10.3**
Total comprehensive income for the year attributable to the shareholders of the parent	-	-	-	-	0.2	49.9	-	**50.1**
Issue of ordinary shares (note 4.4)	37.6	-	-	-	-	-	-	**37.6**
Rights Issue (note 4.4)	-	-	-	33.2	-	-	-	**33.2**
Transfer to retained earnings (note 4.4)	-	-	-	(33.2)	-	33.2	-	-
Investment in Pension partnership by								
Pension Schemes (note 5.1)	-	-	-	-	-	-	34.3	**34.3**
Share based payments	-	-	-	-	-	0.8	-	**0.8**
Balance at 31 December 2011	71.0	56.8	2.5	12.6	(0.3)	90.3	34.3	**267.2**
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 (note 4.4)	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 notes on pages 71 to 131 form part of these financial statements

CONSOLIDATED BALANCE SHEET

At 31 December 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Property, plant and equipment	3.2	**299.4**	284.5
Goodwill	3.1	**367.7**	367.7
Other intangible assets	3.1	**3.8**	3.5
Derivative financial instruments	4.2	**21.5**	27.0
Deferred tax assets	2.7	**13.7**	0.1
Total non-current assets		**706.1**	682.8
Current assets			
Inventories	3.5	**565.4**	492.8
Trade and other receivables	3.6	**101.3**	110.2
Cash and cash equivalents	4.2	**101.4**	91.2
Non-current assets classified as held for sale	3.4	**29.0**	25.1
Total current assets		**797.1**	719.3
Total assets		**1,503.2**	1,402.1
Current liabilities			
Interest bearing loans and borrowings	4.2	**(64.3)**	(67.4)
Trade and other payables	3.7	**(799.7)**	(714.4)
Deferred income	3.9	**(0.2)**	(0.1)
Current tax payable		**(25.0)**	(25.0)
Provisions	3.8	**(4.8)**	(10.9)
Total current liabilities		**(894.0)**	(817.8)
Non-current liabilities			
Interest bearing loans and borrowings	4.2	**(305.4)**	(376.3)
Deferred income	3.9	**(18.7)**	(18.9)
Retirement benefit obligations	5.1	**(8.0)**	(69.7)
Provisions	3.8	**(9.9)**	(8.2)
Total non-current liabilities		**(342.0)**	(473.1)
Total liabilities		**(1,236.0)**	(1,290.9)
Net assets		**267.2**	111.2
Capital and reserves			
Called up share capital	4.4	**71.0**	33.4
Share premium account	4.4	**56.8**	56.8
Capital redemption reserve	4.4	**2.5**	2.5
Other reserves	4.4	**12.6**	12.6
Translation reserve	4.4	**(0.3)**	(0.5)
Retained earnings	4.4	**90.3**	6.4
		232.9	111.2
Non-controlling interests		**34.3**	-
Total equity attributable to equity shareholders of the Company		**267.2**	111.2

Approved by the Board of directors on 21 February 2012 and signed on its behalf by :

T G Finn Chief Executive

T P Holden Finance Director

The notes on pages 71 to 131 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Profit for the year		**39.8**	5.6
Adjustment for taxation		**(15.8)**	5.4
Adjustment for net financing expense		**54.0**	52.2
		78.0	63.2
Depreciation and amortisation		**37.2**	40.0
Share based payments		**0.8**	0.6
Profit on sale of businesses and property		**(0.4)**	(0.3)
Impairment of property, plant and equipment		**0.1**	-
Impairment of assets held for sale		**0.9**	0.9
Changes in inventories	3.5	**(57.9)**	(41.1)
Changes in trade and other receivables		**8.2**	(3.1)
Changes in trade and other payables		**77.2**	1.9
Changes in retirement benefit obligations		**(10.8)**	(15.8)
Changes in provisions		**(4.4)**	(1.5)
Cash generated from operations		**128.9**	44.8
Taxation paid		**(1.5)**	(1.4)
Interest received		**5.7**	0.9
Interest paid		**(49.2)**	(37.8)
Net cash from operating activities		**83.9**	6.5
Cash flows from investing activities			
Proceeds from sale of businesses	6.2	**0.9**	4.9
Purchase of property, plant, equipment and intangible assets	3.1, 3.2	**(128.0)**	(99.3)
Proceeds from sale of property, plant and equipment	3.1, 3.2	**72.0**	83.6
Net cash used in investing activities		**(55.1)**	(10.8)
Cash flows from financing activities			
Proceeds on issue of shares (net of costs paid)		**70.8**	-
Payment of capital element of finance lease rentals		**(0.9)**	(2.3)
Repayment of bank loans		**(77.5)**	(40.0)
Proceeds from issue of loans		**2.1**	50.0
Payment of transaction costs related to loans and borrowings		**(13.0)**	-
Distribution to non-controlling interests		**(0.2)**	-
Net cash (outflow) / inflow from financing activities		**(18.7)**	7.7
Net increase in cash and cash equivalents		**10.1**	3.4
Cash and cash equivalents at 1 January		**91.2**	86.8
Effects of exchange rate changes on cash held		**0.1**	1.0
Cash and cash equivalents at 31 December	4.2	**101.4**	91.2

The notes on pages 71 to 131 form part of these financial statements

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2011 £m	2010 £m
Net increase in cash and cash equivalents	**10.1**	3.4
Payment of capital element of finance lease rentals	**0.9**	2.3
Repayment of bank loans	**77.5**	40.0
Proceeds from issue of loans	**(2.1)**	(50.0)
Non-cash movements	**(7.7)**	(5.8)
Decrease / (increase) in net debt in the year	**78.7**	(10.1)
Opening net debt	**(325.5)**	(315.4)
Closing net debt	**(246.8)**	(325.5)

Note : The reconciliation of net cash flow to movement in net debt is not a primary statement and does not form part of the consolidated cash flow statement but forms part of the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Presented below are those accounting policies that relate to the financial statements as a whole and includes details of new accounting standards that are or will be effective for 2011 or later years. To facilitate the understanding of each note to the financial statments those accounting policies that are relevant to a particular category are presented within the relevant notes.

Pendragon PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 31 December 2011 comprise the Company and its subsidiaries and the Group's interest in jointly controlled entities.

The Group 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 Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 132 to 139.

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 and where other bases are applied these are idendified in the relevant accounting policy in the notes below.

Going concern

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 Review on pages 24 to 29.

The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described in the Operational and Business Review and note 4.2 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 the notes section 4 of the financial statements.

SECTION 1 - BASIS OF PREPARATION

Although there are net current liabilities at 31 December 2011, there are undrawn available facilities and as highlighted in note 4.2 to the financial statements, the company meets its day to day working capital requirements through bank, manufacturer and third party vehicle financing facilities.

In August 2011, a Rights Issue raising net proceeds of £70.8m was used to repay existing debt and the Group's financing facilities were extended until June 2014 on improved terms. 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.

Accounting estimates and judgements

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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:
• note 2.1 - revenue recognition
• note 3.5 - inclusion of consignment inventories

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:
• note 2.7 - utilisation of tax losses and recognition of deferred tax assets
• note 3.1 - key assumptions used in discounted cash flows for impairment testing
• note 3.4 - valuation of properties held for resale
• note 3.6 - assessment of repurchase commitments
• note 3.8 - assessment of expected future warranty costs
• note 3.8 - estimation of vacant property provisions
• note 3.8 - VAT provision
• note 5.1 - measurement of defined benefit obligations (including valuation of the Central Asset Reserve)

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.

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.

SECTION 1 - BASIS OF PREPARATION

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.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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.

Foreign currencies

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.

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.

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.

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.

Impairment

The carrying amounts of the Group's assets, other than inventories (see note 3.5) and deferred tax assets (see note 2.7), 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.

SECTION 1 - BASIS OF PREPARATION

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 3.1.

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:

• Amendments to IAS 32 'Classification of Rights Issues' - requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

• IAS 24 'Related parties' - effective for periods commencing on or after 1 January 2011 - provides an exemption to all government related entities which is not applicable to the Group, however the revised standard also amends the definition of a related party, which will be applicable.

• IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' - deals with how entities should measure equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.

SECTION 1 - BASIS OF PREPARATION

• Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement : The amendment to IFRIC 14 removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement (MFR). The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.

• IFRS 7 Financial Instruments: Disclosures – Amendments to disclosures : IFRS 7 is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.

• IAS 1 Presentation of Financial Statements – Presentation of statement of changes in equity : IAS 1 is amended to clarify that a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity for each component of equity. IAS 1 is also amended to allow the analysis of the individual OCI line items by component of equity to be presented in the notes. Previously, such analysis could only be presented in the SOCIE.

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ended 31 December 2011, have been adopted in the year. None of these amendments have had a material impact on the Group's financial statements.

The following standard amendment has been published, endorsed by the EU, and available for early adoption but has not yet been applied by the Group in these financial statements:

• Amendments to IFRS 7 Disclosures - Transfers of Financial Assets : will require additional disclosures about transfers of financial assets, e.g. securitisations and should enable users to understand the possible effects of any risks that may remain with the transferor. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

SECTION 2 - RESULTS AND TRADING

This section contains the notes and information to support the results presented in the income statement.

Contents:

2.1 Revenue

Accounting policy

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.

SECTION 2 - RESULTS AND TRADING

2.1 Revenue *continued*

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 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 within 'property, 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 Group's ordinary course of business. Revenue also comprises commissions receivable for arranging vehicle finance.

The income recieved in respect of warranty policies sold and administered by the Group is recognised over the period of the policy on a straight line basis, having made provision for the estimated cost of fulfilling future claims on unexpired warranties. The unrecognised income together with the provision for future costs are held within provisions (see note 3.8).

Rental income from property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Rental income from subleased property is recognised as rents received in net operating expenses.

2.2 Net operating expenses

	2011 £m	2010 £m
Net operating expenses :		
Distribution costs	**(235.1)**	(243.8)
Administrative expenses	**(161.0)**	(194.7)
Rents received	**3.1**	2.0
	(393.0)	(436.5)

2.3 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 Group's reportable segments:

Stratstone. This segment comprises the Group's prestige 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. This segment also includes the Quicks used and aftersales start-up business results within the non-underlying activities.

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

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 Group's head office function and includes all central activities including directors, finance, HR, marketing, 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 Review on pages 24 to 29 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.

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2011

	Stratstone £m	Evans Halshaw £m	Chatfields £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	**Total £m**
Aftersales revenue	113.2	161.3	28.9	23.2	-	-	-	-	**326.6**
Used vehicle revenue	547.4	698.4	8.6	33.1	-	-	-	-	**1,287.5**
New vehicle revenue	556.6	818.3	35.2	105.8	-	-	-	-	**1,515.9**
Trade / wholesale revenue	42.1	170.7	1.6	7.5	-	-	-	-	**221.9**
Contract hire and support revenue	-	-	-	-	38.1	61.5	22.9	-	**122.5**
Total gross segment revenue	1,259.3	1,848.7	74.3	169.6	38.1	61.5	22.9	-	**3,474.4**
Inter-segment revenue	-	-	-	-	(21.2)	(21.3)	(13.7)	-	**(56.2)**
	1,259.3	1,848.7	74.3	169.6	16.9	40.2	9.2	-	**3,418.2**
Revenue from non-underlying activites	-	47.6	-	-	-	-	-	-	**47.6**
Revenue from external customers	1,259.3	1,896.3	74.3	169.6	16.9	40.2	9.2	-	**3,465.8**
Operating profit before other income and non-underlying items	30.4	26.0	1.5	5.7	6.8	2.2	9.1	(7.3)	**74.4**
Other income and non-underlying items	-	-	-	-	-	-	-	3.6	**3.6**
Operating profit	30.4	26.0	1.5	5.7	6.8	2.2	9.1	(3.7)	**78.0**
Finance expense	(3.2)	(4.5)	(0.1)	(1.5)	-	-	-	(73.7)	**(83.0)**
Finance income	-	-	-	-	0.2	-	0.4	28.4	**29.0**
Segmental profit before tax	27.2	21.5	1.4	4.2	7.0	2.2	9.5	(49.0)	**24.0**
Reconciliation to tables in Operational and Business review									
Operating profit as above	30.4	26.0	1.5	5.7	6.8	2.2	9.1	(7.3)	**74.4**
Allocation of central overheads	(2.6)	(3.4)	(0.4)	-	(0.3)	(0.3)	(0.3)	7.3	**-**
Result as presented in Operational and Business review tables	27.8	22.6	1.1	5.7	6.5	1.9	8.8	-	**74.4**

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.

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2011

	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	(3.5)	(8.4)	(0.4)	(1.7)	(21.3)	(0.1)	(0.4)	-	**(35.8)**
Amortisation	(0.7)	(0.7)	-	-	-	-	-	-	**(1.4)**
Share based payments	(0.4)	(0.4)	-	-	-	-	-	-	**(0.8)**
Operating losses incurred in start up businesses	-	(4.4)	-	-	-	-	-	-	**(4.4)**
Impairment of assets held for sale	-	-	-	-	-	-	-	(1.0)	**(1.0)**
VAT assessment provision and refunds	-	-	-	-	-	-	-	9.4	**9.4**
Professional fees	-	-	-	-	-	-	-	(0.8)	**(0.8)**
Other income - gains on the sale of businesses and property	-	-	-	-	-	-	-	0.4	**0.4**

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2010

	Stratstone £m	Evans Halshaw £m	Chatfields £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	**Total £m**
Aftersales revenue	127.6	173.1	29.7	24.3	-	-	-	-	**354.7**
Used vehicle revenue	533.4	618.5	5.3	31.9	-	-	-	-	**1,189.1**
New vehicle revenue	606.7	938.5	36.1	97.4	-	-	-	-	**1,678.7**
Trade / wholesale revenue	50.0	172.8	3.9	5.9	-	-	-	-	**232.6**
Contract hire and support revenue	-	-	-	-	44.9	61.9	23.8	-	**130.6**
Total gross segment revenue	1,317.7	1,902.9	75.0	159.5	44.9	61.9	23.8	-	**3,585.7**
Inter-segment revenue	-	-	-	-	(17.3)	(19.3)	(14.8)	-	**(51.4)**
	1,317.7	1,902.9	75.0	159.5	27.6	42.6	9.0	-	**3,534.3**
Revenue from non-underlying activities	21.5	15.0	4.2	-	-	-	-	-	**40.7**
Revenue from external customers	1,339.2	1,917.9	79.2	159.5	27.6	42.6	9.0	-	**3,575.0**
Operating profit before other income and non-underlying items	31.9	24.1	1.8	5.8	7.8	1.8	9.4	(7.5)	**75.1**
Other income and non-underlying items	(3.0)	(0.2)	(1.5)	-	-	-	-	(7.2)	**(11.9)**
Operating profit	28.9	23.9	0.3	5.8	7.8	1.8	9.4	(14.7)	**63.2**
Finance expense	(0.5)	(3.7)	-	(1.8)	-	-	-	(66.0)	**(72.0)**
Finance income	-	-	-	-	0.1	-	0.1	19.6	**19.8**
Segmental profit before tax	28.4	20.2	0.3	4.0	7.9	1.8	9.5	(61.1)	**11.0**
Reconciliation to tables in Operational and Business review									
Operating profit before other income and non-underlying items (as above)	31.9	24.1	1.8	5.8	7.8	1.8	9.4	(7.5)	**75.1**
Allocation of central overheads	(2.7)	(3.5)	(0.4)	-	(0.3)	(0.3)	(0.3)	7.5	**-**
Result as presented in Operational and Business review tables	29.2	20.6	1.4	5.8	7.5	1.5	9.1	-	**75.1**

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2010

	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	(3.5)	(6.5)	(0.5)	(1.8)	(26.5)	(0.1)	-	-	**(38.9)**
Amortisation	(0.5)	(0.6)	-	-	-	-	-	-	**(1.1)**
Share based payments	(0.3)	(0.3)	-	-	-	-	-	-	**(0.6)**
Operating losses and closure costs incurred on closed businesses	(3.0)	(0.2)	(1.5)	-	-	-	-	(1.9)	**(6.6)**
Operating losses incurred in start up businesses	-	(2.8)	-	-	-	-	-	-	**(2.8)**
Impairment of assets held for sale	-	-	-	-	-	-	-	(0.9)	**(0.9)**
Redundancy costs	-	-	-	-	-	-	-	(1.9)	**(1.9)**
Other income - gains on the sale of businesses and property	-	-	-	-	-	-	-	0.3	**0.3**

Geographical information.

All segments, with the exception of California in the United States originate in the United Kingdom. The California segment has non-current assets of £20.1m (2010: £23.5m).

SECTION 2 - RESULTS AND TRADING

2.4 Staff costs

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

	2011 Number	2010 Number
Sales	**2,856**	2,876
Aftersales	**4,380**	4,392
Administration	**2,285**	2,430
	9,521	9,698

Costs incurred in respect of these employees were:

	2011 £m	2010 £m
Wages and salaries	**233.0**	244.6
Social security costs	**22.3**	23.5
Contributions to defined contribution plans (see note 5.1)	**3.7**	4.1
(Income) / expense recognised for defined benefit plans (see note 5.1)	**(2.6)**	2.3
Share based payments (see note 4.6)	**0.8**	0.6
	257.2	275.1

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 54 to 64.

2.5 Audit fees

Auditors' remuneration :	2011 £000	2010 £000
Audit of these financial statements	**222.0**	254.1
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**205.0**	230.9
Other services supplied pursuant to such legislation	**30.0**	45.0
Other services relating to taxation	**188.0**	325.1
Services relating to corporate finance transactions entered into (including debt refinancing)	**450.0**	-
Pension valuation and actuarial services	**180.0**	25.6
	1,275.0	880.7

SECTION 2 - RESULTS AND TRADING

2.6 Non-underlying items (before tax)

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. The directors consider that these items should be disclosed seperately to enable a full understanding of the Group's results.

	2011 £m	2010 £m
Within turnover:		
Turnover from closed businesses	-	26.0
Turnover from start up business	47.6	14.7
	47.6	40.7
Within cost of sales:		
Cost of sales of closed businesses	-	(23.7)
Cost of sales of start up business	(45.1)	(14.1)
	(45.1)	(37.8)
Within operating expenses:		
Operating expenses and closure costs incurred on closed businesses	-	(8.9)
Operating expenses incurred in start up business	(6.9)	(3.4)
Impairment of property, plant and equipment	(0.1)	-
Impairment of assets held for sale	(0.9)	(0.9)
Redundancy costs	-	(1.9)
Professional fees	(0.8)	-
VAT assessment refunds and provision reversal	9.4	-
	0.7	(15.1)
Within other income - gains on the sale of businesses and property:		
Losses on the sale of businesses	(0.2)	-
Gains on the sale of property	0.6	0.3
	0.4	0.3
Within finance expense:		
Interest on pension scheme obligations	(20.7)	(21.2)
Interest charge in start up business	(0.4)	-
Refinancing fees and costs	(17.7)	-
	(38.8)	(21.2)
Within finance income:		
Interest on pension scheme assets	23.3	18.9
Interest on VAT refunds	5.1	-
	28.4	18.9
Total non-underlying items (before tax)	(6.8)	(14.2)

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

SECTION 2 - RESULTS AND TRADING

2.6 Non-underlying items (before tax) *continued*

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 against tangible fixed assets of £0.1m during the year (2010: £nil). A £0.9m charge was recognised against assets held for sale (2010: £0.9m).

During the previous three years the Group has undertaken a programme of business closures incurring losses in the process which were deemed non-underlying. The closure programme was fundamentally completed in 2010, therefore subsequent closure activity has been deemed to be part of the ongoing underlying business and as such no non-underlying losses are reported in 2011. During the prior year the Group recognised losses of £6.6m which included wind down expenses, losses on assets, redundancy and vacant property occupancy costs on businesses closed during that year. On the same basis the cost included in the 2011 income statement as an underlying item in relation to ongoing closure costs was £1.6m.

During the previous year the Group set up a new business of Used Car Supermarkets operating under the Quicks brand. During the current year further sites were added as the Group seeks to build and establish the Quicks brand. As this business establishes itself the initial costs and subsequent trading losses incurred as the Group develops and promotes the brand amounted to £4.8m (2010: £2.8m) which are presented as non-underlying.

The Group undertook in the prior year 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 costs of £1.9m in 2010. Further redundancies on a smaller scale took place in 2011 and as such the related costs of £1.0m are included as an underlying item in 2011.

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. Net income of £2.6m has been recognised during the year (2010: net cost £2.3m).

Other income, being the profit on disposal of businesses and property, comprises a £0.6m profit on sale of properties (2010: £0.3m) and a £0.2m loss on the disposal of motor vehicle dealerships (2010: £nil).

Upon the successful completion of the refinancing of the Group during the year a net loss of £17.7m was recorded, comprising of refinancing related costs.

In conjunction with the refinancing the Group entered into a Pension Deficit Reduction Plan. The Group has incurred professional fees of £0.8m in setting up this arrangement which because of their one-off nature are presented as non-underlying.

A VAT refund of £4.7m, net of costs, was recognised in the year in respect of VAT overpaid on demonstrator vehicles over the period from 1973 to 1996. Associated interest received of £5.1m is disclosed within finance income. In addition the Group has completed discussions with HM Revenue & Customs in respect of the VAT treatment of sales of vehicles to certain disabled customers and has reversed the remainder of the provision held in respect of this matter which amounted to £4.7m

SECTION 2 - RESULTS AND TRADING

2.7 Taxation

Accounting policy

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.

Estimates and judgements

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 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.

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.

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Taxation - Income statement

	2011 £m	2010 £m
UK corporation tax :		
Current tax on profit for the year	-	-
Adjustments in respect of prior periods	(0.2)	-
	(0.2)	-
Overseas taxation:		
Current tax on income for the year	1.6	1.6
Adjustments in respect of prior periods	0.1	-
	1.7	1.6
Total current tax	1.5	1.6
Deferred tax (credit) / expense:		
Origination and reversal of temporary differences	(17.5)	(14.4)
Benefit of tax losses recognised	0.2	18.2
Total deferred tax	(17.3)	3.8
Total income tax (credit) / expense in the income statement	(15.8)	5.4

Factors affecting the tax (credit) / charge for the period:
The tax assessed is different from the standard rate of corporation tax in the UK of 26.5% (2010: 28%)

The differences are explained below:	2011 £m	2010 £m
Profit before taxation	24.0	11.0
Tax on profit at UK rate of 26.5% (2010: 28%)	6.4	3.1
Differences:		
Tax effect of expenses that are not deductible in determining taxable profit	0.4	0.3
Permanent differences arising in respect of fixed assets	-	1.0
Unrecognised losses	0.2	-
Tax rate differential on overseas income	0.6	0.6
Non-underlying items (see below)	(20.0)	-
Impact of UK corporation tax rate change	0.9	-
Adjustments to tax charge in respect of previous periods	(4.3)	0.4
Total income tax (credit) / expense in the income statement	(15.8)	5.4

Taxation - Other comprehensive income

	2011 £m	2010 £m
Actuarial gains and losses	(3.7)	0.4

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Tax rate

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

Factors affecting the 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.

Unrecognised deferred tax assets

There are unutilised tax losses within the group of £19.2m (2010: £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:

	2011 **£m**	2010 £m
Deferred tax assets	**29.7**	42.6
Deferred tax liabilities	**(16.0)**	(42.5)
	13.7	0.1

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

The table below outlines the deferred tax assets / (liabilities) that are recognised on the balance sheet, together with their movements in the year:

	At 1 January 2010 £m	Charged / (credited) to consolidated income statement £m	Credited to equity £m	**At 31 December 2010 £m**
Property, plant and equipment	(40.8)	17.0	-	**(23.8)**
Retirement benefit obligations	23.2	(3.8)	0.4	**19.8**
Other short term temporary differences	2.7	1.2	-	**3.9**
Losses	18.4	(18.2)	-	**0.2**
Tax assets / (liabilities)	3.5	(3.8)	0.4	**0.1**

	At 1 January 2010 £m	Charged / (credited) to consolidated income statement £m	Debited to equity £m	**At 31 December 2011 £m**
Property, plant and equipment	(23.8)	22.7	-	**(1.1)**
Retirement benefit obligations	19.8	(13.9)	(3.7)	**2.2**
Other short term temporary differences	3.9	8.7	-	**12.6**
Losses	0.2	(0.2)	-	**-**
Tax assets / (liabilities)	0.1	17.3	(3.7)	**13.7**

Non-underlying tax credit

The current tax credit in relation to the non-underlying items was £21.5m (2010: £3.7m). This comprises a tax credit of £1.5m in respect of net non-underlying expenses of £6.8m plus an additional non-underlying deferred tax credit of £20.0m has been recognised during the year, relating to the release of provisions no longer required in respect of tax deferred on the original disposal of properties to the Company's property joint venture. An asset disposal programme conducted by the joint venture resulted in crystallisation of tax liabilities in a depressed property sector at amounts significantly lower than the values tax were originally deferred on.

2.8 Earnings per share

Accounting policy

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.

SECTION 2 - RESULTS AND TRADING

2.8 Earnings per share *continued*

Earnings per share calculation

	2011 Earnings per share pence	2011 Earnings Total £m	restated* 2010 Earnings per share pence	2010 Earnings Total £m
Basic earnings per share	**3.7**	**39.8**	0.6	5.6
Adjusting items:				
Non-underlying items (see note 2.6)	**0.6**	**6.8**	1.6	14.2
Tax effect of non-underlying items	**(2.0)**	**(21.5)**	(0.4)	(3.7)
Underlying earnings per share (Non GAAP measure)	**2.3**	**25.1**	1.8	16.1
Diluted earnings per share	**3.6**	**39.8**	0.6	5.6
Diluted earnings per share - adjusted (Non GAAP measure)	**2.2**	**25.1**	1.7	16.1

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

	2011 number	restated* 2010 number
Weighted average number of ordinary shares in issue	**1,085.6**	902.5
Weighted average number of dilutive shares under option	**30.1**	42.3
Weighted average number of shares in issue taking account of applicable outstanding share options	**1,115.7**	944.8
Non-dilutive shares under option	**57.3**	48.0

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

* Restated to reflect the impact of the bonus element of the Rights Issue.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

This section contains the notes and information to support those assets and liabilities presented in the Consolidated Balance Sheet that relate to the Group's operating activities.

Contents:

3.1 Intangible assets and goodwill

Accounting policies

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 (CGUs), 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.

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.

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 and is amortised over a period of 5 years.

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.

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.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

Activity

	Goodwill £m	Development costs £m	Other intangibles £m	**Total £m**
Cost				
At 1 January 2010	441.8	2.9	13.3	**458.0**
Additions	-	1.2	0.5	**1.7**
Disposals	(3.7)	-	(0.4)	**(4.1)**
At 31 December 2010	438.1	4.1	13.4	**455.6**
At 1 January 2011	438.1	4.1	13.4	**455.6**
Additions	-	1.3	0.4	**1.7**
Disposals	-	-	(0.1)	**(0.1)**
At 31 December 2011	438.1	5.4	13.7	**457.2**
Amortisation				
At 1 January 2010	70.4	0.9	12.2	**83.5**
Amortised during the year	-	0.7	0.4	**1.1**
Disposals	-	-	(0.2)	**(0.2)**
At 31 December 2010	70.4	1.6	12.4	**84.4**
At 1 January 2011	70.4	1.6	12.4	**84.4**
Amortised during the year	-	1.0	0.4	**1.4**
Disposals	-	-	(0.1)	**(0.1)**
At 31 December 2011	70.4	2.6	12.7	**85.7**
Carrying amounts				
At 1 January 2010	371.4	2.0	1.1	**374.5**
At 31 December 2010	367.7	2.5	1.0	**371.2**
At 1 January 2011	367.7	2.5	1.0	**371.2**
At 31 December 2011	367.7	2.8	1.0	**371.5**

The following have been recognised in the income statement within net operating expenses:

	2011 number	2010 number
Amortisation of internally generated intangible assets	**1.0**	0.7
Amortisation of other intangible assets	**0.4**	0.4
Research and development costs	**0.7**	0.7

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:

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

Future cash flows were projected into perpetuity based on actual operating results and the current business plan up to 2015 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.

It is anticipated that the units will grow revenues in the future, for the purpose of the impairment testing, a growth rate of 2% (2010: 2%) 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 11.3% has been applied (2010: 13.2%).

Two key assumptions made by the directors are the discount rate used and growth rates beyond the business plan. Neither a 1% increase in the discount rate or a 2% reduction in the post business plan growth rate would result in any additional impairment being required.

During the previous year the Group sold one of its Mercedes market areas. The market area disposed was the lowest performing at the point of acquisition and at the point of sale. The goodwill written off was in proportion to the remaining market areas. The goodwill relating to this disposal was £3.7m

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

	BMW £m	Ford £m	Mercedes £m	Vauxhall £m	Others £m	**Total £m**
At 1 January 2010	31.1	71.6	51.5	77.8	139.4	**371.4**
Disposals	-	-	(3.7)	-	-	**(3.7)**
At 31 December 2010	31.1	71.6	47.8	77.8	139.4	**367.7**
At 1 January 2011 and at 31 December 2011	31.1	71.6	47.8	77.8	139.4	**367.7**

Goodwill by segment

	2011 £m	2010 £m
Stratstone	**122.0**	122.0
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
	367.7	367.7

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 projections of both the Land Rover CGU and USA CGU in 2012 now indicates that, if permitted, the impairments could have been reversed.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment

Accounting policy

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

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

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

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

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.

The depreciation charge in respect of property, plant and equipment is recognised within administrative expenses within the income statement.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment *continued*

Activity

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	**Total £m**
Cost				
At 1 January 2010	202.1	71.2	169.1	**442.4**
Additions	6.6	12.4	78.7	**97.7**
Exchange adjustments	1.0	0.3	-	**1.3**
Disposal of businesses	-	(2.0)	-	**(2.0)**
Other disposals	(0.2)	(18.3)	(113.2)	**(131.7)**
Classified as non-current assets held for sale	(4.2)	-	-	**(4.2)**
Reinstated from non-current assets held for sale	1.1	-	-	**1.1**
At 31 December 2010	206.4	63.6	134.6	**404.6**
At 1 January 2011	206.4	63.6	134.6	**404.6**
Additions	6.9	7.8	111.7	**126.4**
Disposal of businesses	-	(1.6)	-	**(1.6)**
Other disposals	(3.7)	(1.7)	(103.8)	**(109.2)**
Classified as non-current assets held for sale	(5.6)	-	-	**(5.6)**
Reinstated from non-current assets held for sale	0.4	-	-	**0.4**
At 31 December 2011	204.4	68.1	142.5	**415.0**
Depreciation				
At 1 January 2010	25.6	48.6	60.4	**134.6**
Exchange adjustments	0.1	0.2	-	**0.3**
Charge for the year	3.7	6.8	28.4	**38.9**
Impairment	-	(1.4)	-	**(1.4)**
Disposals	-	(11.2)	(41.0)	**(52.2)**
Classified as non-current assets held for sale	(0.2)	-	-	**(0.2)**
Reinstated from non-current assets held for sale	0.1	-	-	**0.1**
At 31 December 2010	29.3	43.0	47.8	**120.1**
At 1 January 2011	29.3	43.0	47.8	**120.1**
Charge for the year	3.5	6.4	25.9	**35.8**
Impairment	-	0.1	-	**0.1**
Disposal of businesses	-	(1.4)	-	**(1.4)**
Other disposals	(2.1)	(0.9)	(35.9)	**(38.9)**
Classified as non-current assets held for sale	(0.3)	-	-	**(0.3)**
Reinstated from non-current assets held for sale	0.2	-	-	**0.2**
At 31 December 2011	30.6	47.2	37.8	**115.6**
Carrying amounts				
At 1 January 2010	176.5	22.6	108.7	**307.8**
At 31 December 2010	177.1	20.6	86.8	**284.5**
At 1 January 2011	177.1	20.6	86.8	**284.5**
At 31 December 2011	173.8	20.9	104.7	**299.4**

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 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	-	0.2	**0.2**
Carrying amounts			
At 31 December 2010	0.3	0.8	**1.1**
At 31 December 2011	0.3	0.1	**0.4**

		2011 £m	2010 £m
Building projects currently under construction for which no depreciation has been charged during the year		**2.0**	5.6
Future capital expenditure which has been contracted for but not yet provided in the financial statements - property development and refurbishment		**-**	1.6
Cumulative interest charges capitalised as construction costs and included in land and buildings		**0.7**	0.6

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

Depreciation of property, plant and equipment	- owned	**35.6**	38.2
	- held under finance leases	**0.2**	0.7
Impairment of property, plant and equipment		**0.1**	-

3.3 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. PPH0 Limited in turn owns 100% of PPH1 Limited 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 due to the difficulties faced by PPH1 Limited in adhering to its existing financial covenants. During 2010, PPH1 Limited's financing arrangments were restructured. The restructuring involved, inter alia, the issue of warrants over a new class of shares so that, provided there is full take up of the warrants (which cannot be exercised before 2013 except in specific circumstances) the Group's holding will reduce to 30%. As at the balance sheet date the value of the investment was assessed to still be impaired as set out below.

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.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.3 Interest in joint venture *continued*

The net liabilities of the joint venture company, not adjusted for the percentage owned by the Group are:

	2011 £m	2010 £m
Non-current assets	**196.4**	271.4
Current assets	**12.1**	12.1
Current liabilities	**(8.7)**	(297.1)
Non-current liabilities	**(219.7)**	-
Net liabilities of joint venture company	**(19.9)**	(13.6)

The non-current assets shown above relate to properties held at their market value assessed as at 28 July 2011.

The carrying value of the Group's investment in the joint venture remains impaired at 31 December 2011. 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 2011. The financial statements in respect of the year ended 31 December 2011 are yet to be finalised.

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

	2011 £m	2010 £m
Income	**20.0**	25.1
Expenses	**(16.0)**	(20.9)
Refinancing costs	**-**	(15.3)
Income tax expense	**(0.5)**	-
Profit / (loss) after tax	**3.5**	(11.1)

PPHO Limited has borrowings secured on its land and buildings.

At 31 December 2011 PPHO Limited has no contractual capital commitments.

3.4 Non-current assets classified as held for sale

Accounting policy

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.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.4 Non-current assets classified as held for sale *continued*

Balance sheet

The Group holds a number of freehold and long leasehold properties that are currently being marketed for sale which are expected to be disposed of during 2012.

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.

One property previously classified as held for sale has now been de-classified having been taken off the market to facilitate refurbishment. This asset has been re-classified as property, plant and equipment at its carrying amount. There were no significant adjustments in the re-instatement for any depreciation that would have been charged had the asset not been classified as held for sale nor any reversal of impairment charges in relation to this asset.

These properties form part of central segment assets.

Income statement

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

	2011 £m	2010 £m
Profit on sale of assets classified as held for sale (Shown within Other income - gains on the sale of businesses and property)	**-**	0.3
Impairment of assets held for sale (Shown within Net operating expenses)	**(0.9)**	(0.9)

If the fair value less costs to sell assigned to each property were to be reduced by 10% a further impairment loss of £1.2m would have been recognised (2010: £0.5m).

3.5 Inventories

Accounting policies

Motor vehicle inventories are stated at the lower of cost and fair value less costs to sell. Cost is net of incentives received from manufacturers in respect of target achievements. Fair values are assessed using market research data which is based upon recent industry activity. Whilst this data is deemed representative of current values it is possible that ultimate sales values can vary from those applied. 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.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.5 Inventories *continued*

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. 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.

Balance Sheet

	2011 £m	2010 £m
New and used vehicles	**472.4**	419.6
Consignment vehicles	**56.8**	41.1
Vehicle parts and other inventories	**36.2**	32.1
	565.4	492.8

Inventories recognised as an expense during the year	**2,995.2**	3,044.4
Inventories stated at net realisable value	**94.7**	65.3
Carrying value of inventories subject to retention of title clauses	**401.7**	386.6
Credit recognised in respect of the write down in inventories	**1.5**	6.8

3.6 Trade and other receivables

Accounting policy

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.

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 trade and other receivables (as above), 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.

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.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.6 Trade and other receivables *continued*

Balance sheet

	2011 £m	2010 £m
Trade receivables	**42.1**	48.1
Allowance for doubtful debts	**(0.2)**	(0.5)
	41.9	47.6
Other receivables	**40.6**	56.5
Prepayments	**18.8**	6.1
	101.3	110.2

All amounts are due within one year.

All trade receivables are classified as loans and receivables and held at amortised cost in the current year and prior year.

Total trade receivables held by the Group at 31 December 2011 was £41.9m (2010: £47.6m). No trade receivables have been classified as held for sale (2010: £nil). Receivables of the California segment are £5.4m (2010: £5.8m).

The average credit period taken on sales of goods is 29 days (2010: 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. An expense has been recognised in respect of impairment losses during the year of £0.5m (2010: £0.5m). The impairment is in respect of items that are aged greater than 120 days.

The ageing of trade and other receivables at the reporting date was:

	Trade receivables 2011 £m	**Other receivables 2011 £m**	Trade receivables 2010 £m	Other receivables 2010 £m
Not past due	**28.2**	**35.9**	34.8	52.2
Past due 0-30 days	**10.3**	**2.7**	10.2	2.5
Past due 31-120 days	**2.8**	**2.0**	2.5	1.8
Past due 120+ days subject to impairment	**0.8**	**-**	0.6	-
	42.1	**40.6**	48.1	56.5
Provision for impairment	**(0.2)**	**-**	(0.5)	-
	41.9	**40.6**	47.6	56.5

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011 £m	2010 £m
Balance at 1 January	**0.5**	0.5
Utilisation	**(0.8)**	(0.5)
Impairment loss recognised	**0.5**	0.5
Balance at 31 December	**0.2**	0.5

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

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.7 Trade and other payables

Accounting policy

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. Their contracted cashflows are expected to mature within 12 months of the balance sheet date.

Balance Sheet

	2011 £m	2010 £m
Trade payables	**563.4**	483.5
Consignment vehicle liabilities	**56.8**	41.1
Payments received on account	**13.5**	15.1
Other taxation and social security	**8.3**	22.7
Accruals	**157.7**	152.0
	799.7	714.4

Trade payables are classified as other financial liabilities and principally relate to vehicle funding. Fair value is deemed to be the same as carrying value.

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. The repurchase commitment is included within trade payables.

3.8 Provisions

Accounting policy

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.

Warranty service provision

A provision for warranties is recognised when the warranty policy is sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. 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.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.8 Provisions *continued*

Vacant property provision

A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a lease 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.

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.

VAT assessment

The Group has completed discussions with HM Revenue & Customs in respect of the VAT treatment of sales of vehicles to certain disabled customers and has reversed the remainder of the provision held in respect of this matter. A separate provision of £0.8m has been retained in respect of potential VAT issues arising from sales to finance companies, the settlement of which is expected to be concluded in the forthcoming year.

The movements in provisions for the year are as follows:

	Warranty service provision £m	Vacant property provision £m	VAT assessment £m	**Total £m**
At 31 December 2010	5.3	8.3	5.5	**19.1**
Provisions made during the year	4.2	0.8	-	**5.0**
Provisions used during the year	(2.6)	(2.1)	-	**(4.7)**
Provisions reversed during the year	-	-	(4.7)	**(4.7)**
At 31 December 2011	6.9	7.0	0.8	**14.7**
Non-current	4.9	5.0	-	**9.9**
Current	2.0	2.0	0.8	**4.8**
	6.9	7.0	0.8	**14.7**

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.9 Deferred Income

The Group entered into a sale and leaseback arrangement in December 2006 with its joint venture Company PPHO Limited, in which a number of properties were disposed of generating total proceeds of £250.1m. The arrangement entitles PPHO 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. In addition, the leases include fixed rental increases.

	2011 £m	2010 £m
Unamortised deferred income	**11.1**	12.1
Fixed rental adjustment	**7.8**	6.9
	18.9	19.0
Non-current	**18.7**	18.9
Current	**0.2**	0.1
	18.9	19.0

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

This section contains the notes and information to support the elements of both net debt and equity financing as presented in the Consolidated Balance Sheet.

Contents:

4.1 Accounting policies

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. Financial instruments comprise both derivative and non-derivative financial instruments.

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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.1 Accounting policies *continued*

Cash and cash equivalents

Cash and cash equivalents comprise cash in 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.

Trade and other receivables - see 3.6

Loans and borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. The fair values have been estimated through making certain assumptions in relation to the timings of loan repayments, estimations of the future LIBOR and USD exchange rates and amounts of any fees that may become payable in respect of the current loans during a subsequent refinancing. The fair value was also dependent on management's assessment of whether the refinancing was an extinguishment under IAS 39. 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.

Trade and other payables - see 3.7

Derivative 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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives

Net Borrowings

	2011 £m	2010 £m
Cash and cash equivalents	**101.4**	91.2
Current interest bearing loans and borrowings	**(64.3)**	(67.4)
Non-current interest bearing loans and borrowings	**(305.4)**	(376.3)
Derivative financial instruments	**21.5**	27.0
	(246.8)	(325.5)

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 2011 £m	Carrying value & fair value 2010 £m
Bank balances and cash equivalents	**101.4**	91.2

Borrowings

In August 2011, a Rights Issue was completed raising net proceeds of £70.8m which was used to repay existing debt and the Group's financing facilities were extended until June 2014 on improved terms.

As at 31 December 2011, the Group had a £266.5m credit facility and loan notes totalling USD 150.8m and GBP 14.8m (with an equivalent GBP hedged liability of £94.1m) in respect of the Group's UK business activities, expiring as set out below:

Term loan	Expiry date	**£m**
	June 2012	**13.85**
	December 2012	**13.85**
	June 2013	**13.85**
	December 2013	**13.85**
	June 2014	**64.60**
Total term loan		**120.00**
Revolving credit facility	June 2014	**146.49**
		266.49

Loan notes	Expiry date	USD loan notes $m	GBP loan notes £m	**Hedged equivalent £m**
9.310% USD 110m loan notes 2014	June 2012	9.91	0.95	**6.16**
9.310% USD 67m loan notes 2014	December 2012	9.91	0.95	**6.16**
9.834% GBP 17m loan notes 2014	June 2013	9.91	0.95	**6.16**
	December 2013	9.91	0.95	**6.16**
	June 2014	111.18	10.96	**69.42**
		150.82	14.76	**94.06**

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Financing of overseas businesses

The facilities used to fund the Group's overseas businesses were also renegotiated as part of the re-financing of the Group in August 2011. At 31 December 2011, the following facilities were in place:

	Currency	**Amount £m**	Expiry date
Netherlands	Floating GBP	**5.0**	Earlier of August 2012 or on demand
		5.0	Earlier of August 2013 or on demand
		11.3	Earlier of August 2014 or on demand
		21.3	
		$m	
USA	Floating USD	**3.3**	Earlier of August 2012 or on demand
		3.3	Earlier of August 2013 or on demand
		3.4	Earlier of August 2014 or on demand
		10.0	

Finance terms

Fees

The refinancing of the Group's facilities and loan notes have been accounted for as an extinguishment of the original financial liabilities. The new loans and loan notes have been recognised at fair value. Fees payable in respect of the extinguishment, which have been expensed to profit and loss, comprise:

	£m
Balance of fees not accrued in respect of original financial liability	**1.8**
Acceleration of original loan fair value accretion	**4.7**

Fees payable in respect of new facilities, all of which have been expensed to profit and loss as part of the £17.7m non-underlying expense (see note 2.6), comprise:

	£m
Arrangement fee - UK facilities	**5.9**
Arrangement fee - Netherlands facilities	**0.2**
Arrangement fee - US facilities	**0.1**

The Netherlands facility also has a fee payable at maturity of 5% of the average outstanding commitment over the term to August 2014, payable at maturity. This fee is accrued over the period to maturity. The total expensed to profit and loss during 2011 was £0.1m, which also represents the accrual at 31 December 2011.

Professional fees of £5.0m were incurred in respect of the refinancing, which has also been expensed to profit and loss.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Bank lenders electing not to share in term loan repayments (non-amortising) earn a higher return in respect of their total facility commitment, as follows:

	Margin: non-amortising	Margin: amortising	Commitment (non-utilisation) fee: non-amortising	Commitment (non-utilisation) fee: amortising
Term Loan	3.50%	3.25%	1.75%	1.63%
Revolver	3.50%	3.25%	1.75%	1.63%

Loan notes pay the nominal coupon rate at 9.310% or 9.834% as above. In accordance with the Group's hedging policy, the effective swapped borrowing rates are as follows:

	Nominal coupon	Effective swapped rate
9.310% USD 110m loan notes 2014	9.31%	6m LIBOR + 8.97%
9.310% USD 67m loan notes 2014	9.31%	6m LIBOR + 8.97%
9.834% GBP 17m loan notes 2014	9.83%	6m LIBOR + 4.75%

Overseas facilities	Margin
Netherlands	3.25%
USA	2.75%

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, comprising property, plant and equipment of £194.7m, trade and other receivables of £82.5m and certain vehicle inventories of £9.1m.

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

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Summary of borrowings

	Carrying value 2011 £m	**Fair value 2011 £m**	Carrying value 2010 £m	Fair value 2010 £m
Non - current:				
Bank borrowings	**200.4**	**200.4**	240.0	240.0
9.310% USD 110m loan notes 2014 (formerly 2012)	**55.3**	**55.3**	70.0	76.0
9.310% USD 67m loan notes 2014	**33.8**	**33.8**	46.3	50.0
9.834% GBP 17m loan notes 2014	**14.2**	**14.2**	18.2	20.0
Other loan notes	**0.2**	**0.2**	0.2	0.2
Finance leases	**1.5**	**1.5**	1.6	1.6
Total non-current	**305.4**	**305.4**	376.3	387.8
Current:				
Bank borrowings	**51.9**	**51.9**	66.5	66.5
9.310% USD 110m loan notes 2014 (formerly 2012)	**6.5**	**6.5**	-	-
9.310% USD 67m loan notes 2014	**3.9**	**3.9**	-	-
9.834% GBP 17m loan notes 2014	**1.9**	**1.9**	-	-
Finance leases	**0.1**	**0.1**	0.9	0.9
Total current	**64.3**	**64.3**	67.4	67.4
Total borrowings	**369.7**	**369.7**	443.7	455.2

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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

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 2011 and repricing periods, is set out in the table below:

	Classification	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	Loans and receivables	101.4	Amortised cost	Floating GBP	0.45% - 2.00%	n/a	n/a	6 months or less
Borrowings								
Non - current:								
Bank borrowings	Other financial liabilities	182.3	Amortised cost	Floating GBP	3.80% - 4.25%	n/a	n/a	6 months or less
Bank borrowings	Other financial liabilities	18.1	Amortised cost	Floating USD	3.44% - 3.52%	n/a	n/a	6 months or less
9.310% USD 110m loan notes 2014 (formerly 2012)	Other financial liabilities	55.3	Amortised cost*	Fixed USD	9.31%	Floating GBP	5.17% - 10.14%	6 months or less
9.310% USD 67m loan notes 2014	Other financial liabilities	33.8	Amortised cost*	Fixed USD	9.31%	Floating GBP	4.76% - 10.14%	6 months or less
9.834% GBP 17m loan notes 2014	Other financial liabilities	14.2	Amortised cost*	Fixed GBP	9.83%	Floating GBP	5.84% - 5.93%	6 months or less
Other loan notes	Other financial liabilities	0.2	Amortised cost	Fixed GBP	12.50%	n/a	n/a	n/a
Finance leases	Other financial liabilities	1.5	Amortised cost	Fixed GBP	6.00% - 7.93%	n/a	n/a	n/a
Total non-current		305.4						
Current:								
Bank borrowings	Other financial liabilities	48.7	Amortised cost	Floating GBP	3.80% - 4.30%	n/a	n/a	6 months or less
Bank borrowings	Other financial liabilities	3.2	Amortised cost	Floating USD	2.94% - 3.75%	n/a	n/a	6 months or less
9.310% USD 110m loan notes 2014 (formerly 2012)	Other financial liabilities	6.5	Amortised cost*	Fixed USD	9.31%	Floating GBP	5.17% - 10.14%	6 months or less
9.310% USD 67m loan notes 2014	Other financial liabilities	3.9	Amortised cost*	Fixed USD	9.31%	Floating GBP	4.76% - 10.14%	6 months or less
9.834% GBP 17m loan notes 2014	Other financial liabilities	1.9	Amortised cost*	Fixed GBP	9.83%	Floating GBP	5.84% - 5.93%	6 months or less
Finance leases	Other financial liabilities	0.1	Amortised cost	Fixed GBP	6.00% - 7.93%	n/a	n/a	n/a
Total borrowings		369.7						

* 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 after taking into consideration currency swaps:

	2011 £m	2010 £m
Pound sterling	**348.4**	417.9
US dollar	**21.3**	25.8
	369.7	443.7

Treasury policy, financial risk, funding and liquidity management

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

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

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 mature within appropriate timescales, 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.

The maturity of non-current borrowings is as follows:

	2011 £m	2010 £m
Between 1 and 2 years	**40.0**	310.0
Between 2 and 5 years	**263.7**	66.1
Over 5 years	**1.7**	0.2
	305.4	376.3

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 an 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	252.3	272.5	42.6	18.1	35.5	176.3	-
Loan notes	115.8	140.4	11.2	10.9	20.8	97.3	0.2
Finance leases	1.6	6.7	0.2	0.1	0.1	0.3	6.0
	369.7	419.6	54.0	29.1	56.4	273.9	6.2

The Group has the following undrawn borrowing facilities:	**2011 £m**	2010 £m
Expiring in more than one year but not more than two years	**-**	59.0
Expiring in more than two years	**38.4**	-
	38.4	59.0

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Interest rate risk management

The objective of the Group's interest rate policy is to minimise interest costs whilst protecting the Group from adverse movements in interest rates. Borrowings issued at variable rates expose the Group to cash-flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk. The 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. This policy is kept under regular review in light of market circumstances.

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) 2011 £m	Profit / (loss) 2010 £m
100 bps increase	**(6.2)**	(6.9)
Tax effect	**1.6**	1.9
Effect on net assets	**(4.6)**	(5.0)
100 bps decrease	**6.2**	6.9
Tax effect	**(1.6)**	(1.9)
Effect on net assets	**4.6**	5.0

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 28.0m (2010: USD 25.0m) 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. The Group has taken out hedges to effectively swap all of its fixed rate loan notes denominated in US dollars into floating rate sterling. The Group has the following hedge designations:

	Hedged item
9.310% USD 177m 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

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

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 net fair value of swaps used as hedges of the Group's USD and GBP loan notes is set out below:

Fair value hedge	**Assets carrying value & fair value 2011 £m**	Assets carrying value & fair value 2010 £m
Currency and interest swap (USD 110m / GBP : fixed rate to floating rate) expiring 2014 (2010: expiring 2011)	**12.5**	13.3
Currency and interest swap (USD 67m / GBP : fixed rate to floating rate) expiring 2014	**7.6**	12.1
Interest swap (GBP 17m : fixed rate to floating rate) expiring 2014	**1.4**	1.6
Total	**21.5**	27.0

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

The amounts in respect of the ineffective element of the hedging taken to the income statement are as follows;

	2011 £m	2010 £m
Change in fair value of hedged item - loan notes	**(5.3)**	4.2
Change in fair value of hedging item - derivative financial instruments	**5.5**	(3.8)
Net fair value loss - recognised within finance expense	**0.2**	0.4

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

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.

Included within bank borrowings are balances denominated in US dollars which are designated as a hedge of the net investment in the Group's US subsidiaries. Foreign exchange differences on translation of the borrowings to sterling at the balance sheet date are recognised within the translation differences reserve in equity, net of exchange differences in respect of the net investments being hedged.

	2011 \$m	2010 \$m
Aggregate fair value of borrowings designated as hedge of net investment in the Group's US subsidiaries	**28.0**	25.0

	£m	£m
Foreign exchange losses on translation of borrowings to sterling at balance sheet date	**(0.1)**	(0.6)
Foreign exchange gains on translation of net investments to sterling at balance sheet date	**0.3**	0.7
Net exchange gain recognised within translation reserve in equity	**0.2**	0.1

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.

Historically, the Group has funded major acquisitions through debt funding, the last major acquisition made by the Group being the £500m acquisition of Reg Vardy PLC in 2006; a residual element of debt from funding past acquisitions remains today and will be repaid over time through the operating cashflows of the business. A core requirement remains, which the Group requires to fund its day to day working capital requirements. A fundamental element of the Group's financial resources revolves around the provision of vehicle and parts stocking credit lines, usually provided by the vehicle manufacturers funding arms, but also by other third party providers. The Group's funding of its vehicle and parts stocks is set out below:

	2011 £m	2010 £m
Manufacturer finance arm	**399.1**	338.5
Third party stock finance	**129.1**	128.8
Bank	**37.2**	25.5
Total inventories	**565.4**	492.8

When considering vehicle stocks from a funding risk view point we split the funding into that which is funded by the vehicle manufacturers through their related finance arms 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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The Group is also responsible for funding the pension deficit. Further to the Group's refinancing during 2011, the Group has also agreed a Pension Deficit Reduction Plan which will eliminate the current pension deficit and significantly reduce cash outflow over the next three years. Under this transaction the Group will provide the pension schemes with an investment which generates a predictable property asset-backed income and will consequently unlock aggregate cash flow savings for the Group of an estimated £46m in the period from implementation to December 2014. The total financial resources required by the group to fund itself at 31 December 2011 comprises:

	2011 £m	2010 £m
Net debt	**246.8**	325.5
Stock finance	**528.2**	467.3
Pension deficit	**8.0**	69.7
	783.0	862.5

The Board's policy is to maintain a strong capital base to maintain market confidence and to sustain the development of the business, whilst maximising the return on capital to the Group's shareholders. The Group's strategy will be to maintain facilities approriate to the working requirements of the Group whilst repaying the residual core acquisition debt described above. The Group seeks to grow organically and reduce its debt requirement through generating cashflow. The net proceeds of the Group's Rights Issue during 2011 of £70.8m have allowed the Group to improve its level of financial indebtedness towards the previously stated long-term Debt : Underlying EBITDA ratio target of 2.0 : 1.0. As a result of this acceleration in the achieving of the target ratio the Group has set a new Debt : Underlying EBITDA target of below 1.5 : 1.0.

The key measures which management uses to evaluate the Group's use of its financial resources, and performance achieved against these in 2011 and 2010 are set out below:

	2011	2010
Underlying profit before tax (£m)	**30.8**	25.2
Underlying earnings per share (p)	**2.3**	1.8
Debt : Underlying EBITDA	**2.2**	2.8

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, the Group-wide provision of a sharesave scheme being one example.

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

There were no changes to capital management in the year.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.3 Net financing costs

Accounting policy

Finance income comprises interest income on funds invested, return on pension scheme assets 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, interest on pension scheme obligations and losses on hedging instruments recognised in profit and loss. All borrowing costs are recognised in profit and loss using the effective interest method.

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.

Finance expense

Recognised in profit and loss	**2011 £m**	2010 £m
Interest payable on bank borrowings and loan notes	**29.0**	39.0
Refinancing fees and costs (non-underlying - see note 2.6)	**17.7**	-
Vehicle stocking plan interest	**13.8**	9.6
Interest payable on finance leases	**0.1**	0.3
Interest on pension scheme obligations (non-underlying - see note 2.6)	**20.7**	21.2
Less : interest capitalised	**(0.1)**	(0.1)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**81.2**	70.0
Net fair value expense in respect of hedging relationships (see note 4.2)	**0.2**	0.4
Unwinding of discounts in contract hire residual values	**1.6**	1.6
Total finance expense	**83.0**	72.0

Interest of £0.1m (2010: £0.1m) has been capitalised during the year on assets under construction at an average rate of 3.82% (2010: 3.79%).

Finance income

Recognised in profit and loss	**2011 £m**	2010 £m
Interest receivable on bank deposits	**0.6**	0.9
Interest on VAT refunds (non-underlying - see note 2.6)	**5.1**	-
Interest on pension scheme assets (non-underlying - see note 2.6)	**23.3**	18.9
Total finance income	**29.0**	19.8

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.4 Capital and reserves

Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

	Number	£m
Allotted, called up and fully paid shares of 5p each at 31 December 2010	668,068,999	**33.4**
Rights Issue	751,577,623	**37.6**
Allotted, called up and fully paid shares of 5p each at 31 December 2011	1,419,646,622	**71.0**

In August 2011, the Company raised £70.8m (net of expenses of £4.4m) through a Rights Issue of 751.6m new ordinary shares at 10 pence each on the basis of nine new shares for every eight existing ordinary shares. The issue price represented a discount of 54% to the closing share price on 13 July 2011, the date prior to the announcement of the Rights Issue.

The share issue used a cash box structure involving a Jersey subsidiary (JerseyCo) which was 89% owned by the Company prior to the transaction. In return for an issue of redeemable preference shares by JerseyCo to the investors, the net proceeds of the share issue were received by JerseyCo. Subsequent to the issue of those shares, the Company acquired the remaining share capital of JerseyCo, being all of its redeemable preference shares and the 11% of the ordinary shares it did not own, in exchange for new Ordinary shares of the Company. Under this structure merger relief applies under Section 612 of the Companies Act 2006 which provides relief from the requirements under Section 610 of the Companies Act 2006 to create a share premium account. Instead the Company recorded the premium as an 'other reserve'. JerseyCo then redeemed its redeemable shares by paying the share issue proceeds to the Company. The other reserve is deemed to be a distributable profit and transferred to retained earnings.

Earnings per share data has been restated for all comparative periods presented, by adjusting the weighted average number of shares to include the impact of the bonus shares. For comparability, dividends per share in the five year summary are also presented after taking account of the bonus element of the Rights Issue.

During the previous year 6,091,282 ordinary shares were issued pursuant to the exercise of warrants granted in connection with the Group's refinancing in 2009. 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 2,282,525 in settlement of consideration of £0.3m. There were no exercises of these warrants during 2011.

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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.4 Capital and reserves *continued*

Warrants

During 2009 as part of the Group refinancing 49,202,040 warrants were issued with an exercise price of 5.00p. The number of warrants outstanding were adjusted to reflect the impact of the rights issue. There were no other movements in the outstanding warrants during the year. The amounts of outstanding warrants at 31 December 2011 and 31 December 2010 are shown in the table below:

Exercise period	Date of grant	Exercise price per share	At 31 December 2010 Number	Adjustment for Rights Issue Number	At 31 December 2011 Number
15 May 2009 to 31 December 2014	15 May 2009	5.00	22,657,613	9,075,919	31,733,532
26 June 2009 to 31 December 2014	26 June 2009	5.00	11,328,806	4,537,959	15,866,765
			33,986,419	13,613,878	47,600,297

The warrants outstanding at 31 December 2011 have a weighted contractual life of 3.0 years. All share warrants are settled in equity.

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.

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.

The market value of the investment in the Company's own shares at 31 December 2011 was £1.6m (2010: £3.8m), being 20.8m (2010: 18.6m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2010: £0.40). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2011 was £8.0m (2010: £8.0m). The investment in own shares represents shares in the Company held by Pendragon Quest Trustees Limited and Investec Trust Jersey 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 54 to 64.

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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.4 Capital and reserves *continued*

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.

4.5 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.

The Board are not recommending a final dividend for 2011.

4.6 Share based compensation

Accounting policy

The Group operates a number of employee share option schemes and an executive share ownership plan "exsop" awarded in 2010. Share warrants issued in 2009 as part of the refinancing are all considered to be equity settled share option schemes and therefore accounted for as such under IFRS 2 'Share based payment'. 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.

Share Schemes

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

	Weighted average exercise price* 2011	**Number of options millions* 2011**	Weighted average exercise price* 2010	Number of options millions* 2010
Outstanding at beginning of period	**18.35p**	**42.8**	20.06p	40.7
Exercised during the period	**13.37p**	**(0.5)**	-	-
Lapsed during the period	**11.68p**	**(12.3)**	21.92p	(7.8)
Granted during the period	**8.82p**	**9.7**	14.22p	9.9
Outstanding at the end of the period	**18.14p**	**39.7**	18.35p	42.8
Exercisable at the end of the period	**34.02p**	**8.1**	30.73p	8.7

* As adjusted to reflect the bonus element of the Rights Issue

The options outstanding at 31 December 2011 have an exercise price in the range of 8.82 pence to 93.25 pence and a weighted contractual life of 1.8 years. All share options are settled in equity.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.6 Share based compensation *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 2011 were as follows:

Exercise period	Date of grant	Scheme description	Exercise price per share	At 31 December 2010 Number	Adjustments for Rights Issue*	Exercised Number	Granted Number	Lapsed Number	At 31 December 2011 Number
9 March 2004 to 8 March 2011	9 March 2001	1999 Executive Scheme	13.37p	349,995	140,178	(490,173)	-	-	-
24 March 2006 to 23 March 2013	24 March 2003	1999 Executive Scheme	16.74p	493,900	197,814	-	-	(175,064)	516,650
24 March 2008 to 23 March 2013	24 March 2003	1999 Executive Scheme	16.74p	1,749,995	700,899	-	-	-	2,450,894
30 September 2006 to 29 September 2013	30 September 2003	1999 Executive Scheme	28.70p	458,370	183,584	-	-	(42,016)	599,938
20 September 2009 to 19 September 2014	20 September 2004	1999 Executive Scheme	42.98p	3,075,000	1,231,584	-	-	-	4,306,584
1 July 2010 to 31 December 2010	1 July 2005	1998 Sharesave Scheme	43.13p	59,080	23,662	-	-	(82,742)	-
1 July 2012 to 31 December 2012	1 July 2005	1998 Sharesave Scheme	43.13p	118,345	47,394	-	-	(58,016)	107,723
1 July 2011 to 31 December 2011	1 July 2006	1998 Sharesave Scheme	93.25p	200,060	80,096	-	-	(12,416)	267,740
1 July 2013 to 31 December 2013	1 July 2006	1998 Sharesave Scheme	93.25p	57,570	23,052	-	-	(24,929)	55,693
19 September 2011 to 18 September 2018	19 September 2008	1999 Executive Scheme	7.42p	5,589,760	2,238,783	-	-	(7,828,543)	-
1 August 2012 to 31 January 2013	13 July 2009	2008 Sharesave Scheme	17.61p	11,283,989	4,518,703	-	-	(4,094,578)	11,708,114
20 September 2013 to 19 September 2020	20 September 2010	2009 Executive Scheme	14.22p	7,135,099	2,857,715	-	-	-	9,992,814
7 October 2014 to 6 October 2021	6 October 2011	2009 Executive Scheme	8.82p	-	-	-	9,733,382	-	9,733,382
				30,571,163	12,243,464	(490,173)	9,733,382	(12,318,304)	39,739,532

* As adjusted to reflect the bonus element of the Rights Issue - this has no impact on the overall fair value of options in issue.

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

On 6 October 2011 options over 9,733,382 ordinary shares of 5p were granted pursuant to the 2009 Executive Option Scheme at an exercise price of 8.82p per share.

The grants of share options under the 2009 and 1999 Schemes prescribed an earnings per share performance criterion. It is a pre-condition to the exercise of grants made under the 2009 and 1999 Schemes that the growth in the Company's earnings per share over the prescribed three year period must exceed by at least 3 percent per annum compound the annual rate of inflation as shown by the RPI Index.

The weighted average share price at the date of exercise for the 490,173 share options exercised in the year was 16.42p*.

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 2011 is 7.6p (2010: 8.9p (as adjusted to reflect the bonus element of the rights issue)).

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.6 Share based compensation *continued*

		2009 Executive Scheme
	2011	2010*
Number of share options granted in year	**9,733,382**	9,992,814
Weighted average share price (pence)	**8.82**	14.22
Weighted average exercise price (pence)	**8.82**	14.22
Weighted average fair value (pence)	**4.15**	7.20
Expected volatility (%)	**52.3%**	72.8%
Expected life (years)	**3.0**	3.0
Risk free rate (%)	**0.86%**	1.47%
Expected dividend yield (%)	**3%**	-

* As adjusted to reflect the bonus element of the Rights Issue.

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 £0.8m as an employee benefit cost in respect of equity-settled share based payment transactions (2010: £0.6m) included within administration costs.

4.7 Obligations under finance leases

Accounting policies

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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.7 Obligations under finance leases *continued*

Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Amounts payable under finance leases:				
Within one year	**0.3**	1.1	**0.1**	0.9
In the second to fifth years inclusive	**0.4**	0.5	**0.4**	0.4
After five years	**6.0**	6.1	**1.1**	1.2
	6.7	7.7	**1.6**	2.5
Less: future finance charges	**(5.1)**	(5.2)	**-**	-
Present value of lease obligations	**1.6**	2.5	**1.6**	2.5
Amount due for settlement within one year			**0.1**	0.9
Amount due for settlement in over one year			**1.5**	1.6
			1.6	2.5

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 56 and 81 years. The effective interest rates are shown in note 4.2 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.

4.8 Operating lease arrangements

Leases are classified as operating leases wherever the lease does not transfer substantially all the risks and rewards of ownership to the Group.

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.

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:

	2011	2010
	£m	£m
Within one year	**47.2**	45.8
In the second to fifth years inclusive	**186.2**	171.3
After five years	**624.8**	698.7
	858.2	915.8

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.8 Operating lease arrangements *continued*

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 following amounts have been charged to the income statement as operating expenses during the year:

		2011 **£m**	2010 £m
Operating lease rentals payable	- hire of plant and machinery	**2.8**	2.9
	- property rentals	**44.2**	44.1

The Group as lessor

Property rental income earned during the year was £3.1m (2010: £2.0m). No contingent rents were recognised in income (2010: £nil). The Group currently receives rental income on 23 (2010: 25) properties on short term leases.

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

	2011 **£m**	2010 £m
Within one year	**2.9**	3.1
In the second to fifth years inclusive	**11.8**	11.8
After five years	**26.1**	24.6
	40.8	39.5

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

SECTION 5 - PENSION SCHEMES

This section explains the pension scheme arrangements the Group has in place and the obligations that they have undertaken to meet.

5.1 Pension obligations

Accounting policy

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.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

A defined 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.

In accordance with IFRIC14 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 an obligation for the Company to pay deficit funding, this is also recognised.

Under IAS24, the pension schemes are related parties of the Group. At 31 December 2011 there was an outstanding balance of £0.8m (2010: £nil) payable to the pension schemes.

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.

All six schemes have had formal actuarial valuations as at 5 April 2011. All the actuarial valuations have been issued under the UK Government's Scheme Specific Funding arrangements.

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 2011 using the projected unit credit method. At this date the market value of the Plan's assets relating to the defined benefit section was £133.6m; these assets represented 85.5% 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 6.9% and the annual rate of pension increases would be between 2.8% - 3.5%.

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 £23.9m, based upon actuarial advice.

CD Bramall Pension Scheme

The CD Bramall Pension Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2011 using the projected unit credit method. At the valuation date, the market value of assets was £31.1m; these assets represented 93.7% 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 6.9% and the annual rate of pension increases would be between 2.9% - 3.5%.

The employer contributions paid to the Scheme during the year were £2.2m, based upon actuarial advice.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

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 2011 using the projected unit credit method. At the valuation date, the market value of assets was £30.5m; these assets represented 87.0% 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 7.1% and the annual rate of pension increases would be between 2.8% - 3.0%.

The employer contributions paid to the Scheme during the year were £4.7m, 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 5 April 2011 using the projected unit credit method. At the valuation date, the market value of assets relating to the defined benefit section was £7.4m; these assets represented 94.1% 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 6.7% and the annual rate of pension increases would be between 2.8% - 3.5%.

The employer contributions paid to the Scheme during the year were £0.6m, 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 2011 using the projected unit credit method. At the valuation date, the market value of assets was £95.9m; these assets represented 92.2% 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 6.2% and the annual rate of pension increases would be between 3.3% - 3.6%.

The employer contributions paid to the Scheme during the year were £12.0m, based upon actuarial advice.

An IFRIC14 surplus of £4.8m has arisen at 31 December 2011 (2010: £nil) which has resulted in an increase in the pension liability at the year end.

Reg Vardy Retirement Scheme

The Reg Vardy Retirement Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2011 using the projected unit credit method. At the valuation date, the market value of assets was £49.7m; these assets represented 96.1% 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 6.9% and the annual rate of pension increases would be between 2.8% - 3.5%.

The employer contributions paid to the Scheme during the year were £1.9m, 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 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. A Group Self Invested Personal Pension arrangement with Legal & General replaced the Friends Provident arrangement from 1 January 2010. Total contributions paid by the Group in 2011 to the Legal & General arrangement were £3.7m (2010: £4.1m).

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Central Asset Reserve

On 13 July 2011 the Group agreed an asset-backed cash payment arrangement with the Trustees of the UK pension scheme to help address the UK pension funding deficit. In connection with the arrangement certain UK freehold properties were transferred to a limited partnership established by the Group. The partnership is controlled by and its results are consolidated by the Group. The fair value of the assets transferred was £34.5m. On 13 July 2011, the Group made a special contribution to the UK pension scheme of £34.5m and on the same date the UK pension scheme used this contribution to acquire a limited interest in the partnership for its fair value of £35.8m. The UK pension scheme's partnership interest entitles it to a distribution from the income of the partnership over 20 years subject to a discretion exercisable by the Group in certain circumstances. At inception the discounted value of the cash distributions was assessed at £34.5m which was recognised as a pension plan asset and as a non-controlling interest in equity.

IAS19 assumptions

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

	2011	2010	2009
Inflation - RPI	**3.00%**	3.50%	3.50%
Inflation - CPI	**2.20%**	3.00%	n/a
Rate of increase in salaries	**n/a**	n/a	n/a
Rate of increase to pensions in payment	**2.73%***	3.15%*	3.37%
Discount rate	**4.85%**	5.40%	5.70%
Mortality table assumption **	**S1PMA CMI 2011 M (1%) / S1PMA CMI 2011 F (1%)**	S1PMA CMI 2009 M (1%) / S1PMA CMI 2009 F (1%)	115% PNMA00 / 110% PNFA00 YOB mc min 1% imp

* A full breakdown of the assumptions for the rates of increase to pensions in payment for the 31 December 2011 valuation is as follows:

RPI to max 5%	3.00%
RPI to max 3%	2.70%
RPI to min 3% to max 5%	3.30%
CPI to max 5%	2.20%
CPI to max 3%	2.20%
CPI to min 3% to max 5%	3.00%

During 2010 the government announced a change to the index to be used for pension increases from RPI to CPI. The change applied to certain elements of pension increases depending on the nature of the pension entitlement, the period in which it was earned and the rules of each scheme. The application of either RPI or CPI to calculate the pension liability has been assessed for each scheme and the relevant elements of pension increases within each scheme.

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 £6.9m
Rate of inflation	Increase / decrease by 0.1%	Increase / decrease of £5.2m

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

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

	2011	2010	2009
Equities	**7.80%**	8.00%	7.50%
Bonds	**4.70%**	5.40%	5.70%
Gilts	**2.80%**	4.20%	4.50%
Central Asset Reserve	**5.90%**	n/a	n/a
Cash	**0.50%**	0.50%	0.50%

The weighted average expected long term rates of return were:

	2011	2010	2009
	5.76%	6.53%	6.32%

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

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The IAS assumptions have been updated at 31 December 2011 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:

	2011 years	2010 years	2009 years
Males aged 45	**23.4**	23.2	23.0
Females aged 45	**25.9**	25.4	25.8
Males aged 65	**22.1**	21.8	21.1
Females aged 65	**24.3**	23.8	23.9

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

	2011 £m	2010 £m	2009 £m
Equities	**206.0**	212.5	182.2
Bonds	**14.1**	13.2	13.0
Gilts	**130.8**	108.0	95.9
Central Asset Reserve	**39.7**	-	-
Cash	**4.4**	7.8	5.4
Fair value of scheme assets	**395.0**	341.5	296.5
Present value of funded defined benefit obligations	**(398.2)**	(389.9)	(378.3)
	(3.2)	(48.4)	(81.8)
Adjustment in respect of minimum funding requirement	**-**	(21.3)	-
Adjustment in respect of non-recognition of surplus	**(4.8)**	-	-
Net liability on the balance sheet	**(8.0)**	(69.7)	(81.8)

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

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

	2011 £m	2010 £m
Net liability for defined benefit obligations at 1 January	**(69.7)**	(81.8)
Contributions received	**45.3**	15.8
Expense recognised in the income statement	**2.6**	(2.3)
Actuarial gains and losses recognised in equity	**(2.7)**	19.9
Adjustment in respect of minimum funding requirement	**21.3**	(21.3)
Adjustment in respect of non-recognition of surplus	**(4.8)**	-
Net liability for defined benefit obligations at 31 December	**(8.0)**	(69.7)

	2011 £m	2010 £m
Actual return on assets	**20.9**	40.3
Expected contributions in following year	**2.0**	19.0

Total in the income statement

	2011 £m	2010 £m
Interest on obligation	**20.7**	21.2
Expected return on assets	**(23.3)**	(18.9)
	(2.6)	2.3

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

	2011 £m	2010 £m
Finance costs	**20.7**	21.2
Finance income	**(23.3)**	(18.9)
	(2.6)	2.3

Actuarial gains and losses recognised directly in equity

	2011 £m	2010 £m
Cumulative amount at 1 January	**(52.6)**	(72.5)
Recognised during the period	**(2.7)**	19.9
Cumulative amount at 31 December	**(55.3)**	(52.6)

Amounts recognised in the consolidated statement of comprehensive income

	2011 £m	2010 £m
Difference between actual and expected return on scheme assets	**(3.3)**	21.4
Experience loss on scheme liabilities	**2.5**	11.5
Changes in assumptions underlying the present value of scheme obligations	**(1.9)**	(13.0)
	(2.7)	19.9
Adjustment in respect of minimum funding requirement and non-recognition of surplus	**16.5**	(21.3)
	13.8	(1.4)

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Changes in the present value of the defined benefit obligation

	2011 £m	2010 £m
Opening present value of defined benefit obligation	**389.9**	378.3
Interest cost	**20.7**	21.2
Actuarial gains / (losses)	**(0.6)**	1.5
Less benefits paid	**(11.8)**	(11.1)
Closing present value of defined benefit obligation	**398.2**	389.9

Movement in fair value of scheme assets during the period

	2011 £m	2010 £m
Opening fair value of assets	**341.5**	296.5
Expected return on assets	**23.3**	18.9
Actuarial (losses) / gains on assets	**(3.3)**	21.4
Contributions by employer	**45.3**	15.8
Less benefits paid	**(11.8)**	(11.1)
End of period	**395.0**	341.5

History of experience adjustments

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligation	**398.2**	389.9	378.3	313.8	321.1
Fair value of scheme assets	**395.0**	341.5	296.5	251.3	307.3
Adjustment in respect of minimum funding requirement and non-recognition of surplus	**(4.8)**	(21.3)	-	(2.9)	(45.0)
Deficit in schemes	**8.0**	69.7	81.8	65.4	58.8
Experience adjustments on scheme liabilities:					
Amount	**(0.6)**	1.5	57.2	(9.7)	(37.6)
Percentage of scheme liabilities (%)	**(0.2%)**	0.4%	15.1%	(3.1%)	(11.7%)
Experience adjustments on scheme assets:					
Amount	**(3.3)**	21.4	29.0	(81.4)	(9.3)
Percentage of scheme liabilities (%)	**(0.8%)**	5.5%	7.7%	(25.9%)	(2.9%)

SECTION 6 - OTHER NOTES

This section contains the notes and information relating to acquisitions and disposals and related party transactions.

Contents:

6.1 Business combinations

Accounting policy

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The results of companies and businesses acquired during the year are included from the effective date of acquisition.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market based value of the replacement awards compared with the market based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

SECTION 6 - OTHER NOTES

6.1 Business combinations *continued*

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

Activity

There were no business combinations made during the year and during the previous period.

Post balance sheet event

On 6 January 2012 the Group acquired the trade and assets of the BMW and MINI franchise in Leeds from Jardine Motors Plc for a total cash consideration paid on completion of £2.6m. The acquistion represents a further strengthening of the Group's representation of the BMW brand in the Yorkshire and Derbyshire areas.

The provisional amounts that will be recognised in the 2012 financial statements in respect of identifiable assets acquired and liabilities assumed are:

	Fair value £m
Financial assets:	
Property, plant and equipment	**0.2**
Inventory	**1.2**
Receivables	**0.2**
Total identifiable assets	**1.6**
Goodwill	**1.0**
Total consideration - satisfied in cash	**2.6**

Due to the proximity of the date of acquisition to the date of this report the fair values of each class of asset have yet to be fully evaluated and therefore the values stated in the table are provisional.

Acquisition related costs will be included in administration expenses in 2012 and are expected to be below £0.1m.

The goodwill acquired represents the excess of consideration paid over the fair value of identifiable assets and liabilities. The goodwill is expected to be deductible for tax purposes over the life of the asset.

SECTION 6 - OTHER NOTES

6.2 Business disposals

Accounting policy

The results of businesses disposed of during the year are included up to the effective date of disposal using the acquisition method of accounting.

Activity

During the year the Group disposed of two dealerships representing BMW and Honda franchise points.

Net assets at date of disposal:

	Net book value £m
Property, plant and equipment	**0.2**
Inventories	**1.0**
Trade and other payables	**(0.1)**
	1.1
Loss on sale of businesses	**(0.2)**
Proceeds on sale satisfied by cash and cash equivalents	**0.9**

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 £4.9m.

6.3 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 135.

Joint venture

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

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

	2011 £m	2010 £m
Rent paid to related party	**19.3**	24.2
Management fees and sales fees received from related party	**0.1**	-
Amounts owed to related party	**0.1**	-
Amounts owed by related party	**0.5**	0.2

SECTION 6 - OTHER NOTES

6.3 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 54 to 64.

Directors of the Company and their immediate relatives control 3.21% of the ordinary shares of the Company.

During the year key management personnel compensation was as follows:

	2011 £m	2010 £m
Short term employee benefits	**2.2**	2.2
Post-employment benefits	**0.2**	0.2
Share based payments	**0.4**	0.1
	2.8	2.5

6.4 Contingent liabilities and contingent assets

The Group is in discussion with HM Revenue and Customs over issues which may result in both additional amounts of VAT payable and VAT receivable to be recognised in future periods and although these amounts, if any, could potentially be significant, it is not possible at present to quantify them. Accordingly no amounts have been included in the 2011 financial statements in respect of these issues.

COMPANY BALANCE SHEET
At 31 December 2011

	Note	**2011 £m**	2010 £m
Fixed assets			
Investments	4	**850.6**	850.6
Loans to subsidiary undertakings		**90.0**	90.0
		940.6	940.6
Current assets			
Debtors	5	**22.2**	36.9
Cash at bank and in hand		**18.2**	11.6
		40.4	48.5
Creditors: amounts falling due within one year	6	**(510.2)**	(485.5)
Net current liabilities		**(469.8)**	(437.0)
Total assets less current liabilities		**470.8**	503.6
Creditors: amounts falling due after more than one year	7	**(303.7)**	(374.5)
Net assets		**167.1**	129.1
Capital and reserves			
Called up share capital	10	**71.0**	33.4
Share premium account	11	**56.8**	56.8
Capital redemption reserve	11	**2.5**	2.5
Other reserves	11	**13.9**	13.9
Profit and loss account	11	**22.9**	22.5
Equity shareholders' funds		**167.1**	129.1

Approved by the Board of Directors on 21 February 2012 and signed on its behalf by:

T G Finn
Chief Executive

T P Holden
Finance Director

Registered Company Number : 2304195

The notes on pages 133 to 139 form part of these financial statements

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 December 2011

	2011 £m	2010 £m
(Loss) / profit for the financial year	**(32.8)**	62.2
Proceeds from issue of new ordinary shares net of costs	**70.8**	-
Net increase to shareholders' funds	**38.0**	62.2
Opening shareholders' funds	**129.1**	66.9
Closing shareholders' funds	**167.1**	129.1

The notes on pages 133 to 139 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.

(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.

1 Accounting policies *continued*

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

(f) 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.

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 2011 is £32.8m (2010: profit £62.2m).

3 Directors

Total emoluments of directors (including pension contributions) amounted to £2.8m (2010: £2.5m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 54 to 64.

The directors are the only employees of the Company.

4 Investments

	Shares in joint venture £m	Shares in subsidiary undertakings £m	**Total £m**
At 31 December 2010 and at 31 December 2011	-	850.6	**850.6**

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

The investment in PPHO Limited was fully impaired in 2008.

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
Quicks Car Supermarkets Limited	Motor vehicle dealer
Quicks Motor Stores Limited	Motor vehicle repairs
Reg Vardy (MML) Limited	Motor vehicle repairs
Reg Vardy (VMC) Limited **	Motor vehicle dealer
Reg Vardy Limited *	Motor vehicle dealer
Stripestar Limited	Motor vehicle dealer
Vardy Marketing Limited	Marketing services
Victoria (Bavaria) Limited	Motor vehicle dealer
Incorporated in the United States of America:	
Bauer Motors Inc.	Motor vehicle dealer
Penegon West Inc.	Motor vehicle dealer
Penegon Mission Viejo Inc.	Motor vehicle dealer
Penegon Newport Beach Inc.	Motor vehicle dealer

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

5 Debtors

	2011 £m	2010 £m
Amounts due within one year:		
Corporation tax	**-**	9.1
Other debtors	**0.1**	0.2
	0.1	9.3
Amounts due after more than one year:		
Deferred tax (see note 8)	**0.6**	0.6
Derivative financial instruments	**21.5**	27.0
	22.1	27.6
	22.2	36.9

Details of valuation techniques and fair values of derivative financial instruments are given above in note 4.2 to the consolidated financial statements.

6 Creditors: amounts falling due within one year

	2011 £m	2010 £m
Bank loans	**36.0**	36.0
9.310% USD 110m loan notes 2014 (formerly 2012)	**6.5**	-
9.310% USD 67m loan notes 2014	**3.9**	-
9.834% GBP 17m loan notes 2014	**1.9**	-
Amounts due to subsidiary undertakings	**456.8**	437.5
Corporation tax	**1.3**	-
Other creditors and accruals	**3.8**	12.0
	510.2	485.5

7 Creditors: amounts falling due after more than one year

	2011 £m	2010 £m
Bank loans (repayable between one and two years)	**35.5**	240.0
Bank loans (repayable between two and five years)	**164.9**	-
9.310% USD 110m loan notes 2014 (formerly 2012)	**55.3**	70.0
9.310% USD 67m loan notes 2014	**33.8**	46.3
9.834% GBP 17m loan notes 2014	**14.2**	18.2
	303.7	374.5

Full details of the Company's borrowings including security and maturity are given in note 4.2 to the consolidated financial statements.

8 Deferred tax

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

	Deferred tax £m
At 31 December 2010	**0.6**
Profit and loss account	**-**
At 31 December 2011	**0.6**

Deferred tax asset is shown within debtors (see note 5)

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

	2011 £m	2010 £m
Other timing differences	**0.6**	0.6

9 Share based payments

During 2009 as part of the Group refinancing 49,202,040 warrants were issued with an exercise price of 5.00p. The number of warrants outstanding were adjusted to reflect the impact of the Rights Issue. There were no other movements in the outstanding warrants during the year. The amounts of outstanding warrants at 31 December 2011 and 31 December 2010 are shown in the table below;

Exercise period	Date of grant	Exercise price per share	At 31 December 2010 Number	Adjustment for Rights Issue Number	At 31 December 2011 Number
15 May 2009 to 31 December 2014	15 May 2009	5.00	22,657,613	9,075,919	31,733,532
26 June 2009 to 31 December 2014	26 June 2009	5.00	11,328,806	4,537,959	15,866,765
			33,986,419	13,613,878	47,600,297

The warrants outstanding at 31 December 2011 have a weighted contractual life of 3.0 years. All share warrants are settled in equity.

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 2011 is 16.2 pence (2010: 16.2 pence).

10 Called up share capital

	Number	£m
Allotted, called up and fully paid shares of 5p each at 31 December 2010	668,068,999	**33.4**
Rights issue	751,577,623	**37.6**
Allotted, called up and fully paid shares of 5p each at 31 December 2011	1,419,646,622	**71.0**

On 22 August 2011 the Company completed a Rights Issue. The structure of the Rights Issue initially gave rise to a merger reserve (included within other reserves below) under section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred from the merger reserve to the profit and loss account. For further information on share capital and the rights issue, refer to note 4.3 in the consolidated financial statements.

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 2011 are fully disclosed above on pages 117 to 119 of this report.

11 Reserves

	Share premium account £m	**Capital redemption reserve £m**	**Other reserves £m**	**Profit and loss account £m**
At 31 December 2010	56.8	2.5	13.9	22.5
Loss for the financial year	-	-	-	(32.8)
Rights Issue	-	-	33.2	-
Transferred to profit and loss	-	-	(33.2)	33.2
At 31 December 2011	**56.8**	**2.5**	**13.9**	**22.9**

The market value of the investment in the Company's own shares at 31 December 2011 was £1.6m (2010: £3.8m), being 20.8m (2010: 18.6m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2010: £0.40). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2011 was £8.0m (2010: £8.0m). The investment in own shares represents shares in the Company held by Pendragon Quest Trustees Limited and Investec Trust Jersey 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 54 to 64.

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.

12 Financial instruments and derivatives

	2011 £m	2010 £m
Changes in fair value expensed to profit and loss	**(0.2)**	(0.4)

Details of valuation techniques and fair values of each category of financial instruments are given above in note 4.2 to the consolidated financial statements.

13 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 2011 the scheme had a deficit on an FRS 17 basis of £1.2m (2010: £26.9m).

The latest full actuarial valuation was carried out at 5 April 2011 and was updated for FRS 17 purposes to 31 December 2011 by a qualified independent actuary.

The Company has no outstanding pension contributions (2010: £nil).

14 Related party transactions

Identity of related parties
The Company has related party relationships with its subsidiaries, its joint venture (see note 3.3 to the consolidated financial statements), and with its key management personnel.

Transactions with related parties
The transaction with directors of the Company and the joint venture PPHO Limited are set out in note 6.3 to the consolidated financial statements.

15 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 Capita Share Dealing Services, a Trading Division of Capita IRG Trustees Limited ("Capita") offer private investors a quick and easy telephone share dealing service for dealings in the company's shares.

Capita, 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 (calls cost 10p per minute plus network extras. Lines are open Mon-Fri 8am-4.30pm) 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 online at www.capitadeal.com or by telephoning 0871 664 0454 (calls cost 10p per minute plus network extras. Lines are open Mon-Fri 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.

5 YEAR GROUP REVIEW

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Revenue (note 6)	**3,465.8**	3,575.0	3,191.7	4,162.4	5,060.2
Gross profit (note 6)	**470.6**	499.4	492.1	543.2	672.7
Operating profit / (loss) before other income (note 6)	**77.6**	62.9	55.6	(130.9)	87.3
Profit / (loss) before taxation (note 6)	**24.0**	11.0	1.3	(194.0)	46.5
Net assets (note 9)	**267.2**	111.2	105.9	113.7	307.2
Net borrowings (note 6)	**246.8**	325.5	315.4	357.3	332.0

Other financial information

	2011	2010	2009	2008	2007
Underlying profit / (loss) before tax (note 6)	**30.8**	25.2	10.1	(33.6)	42.0
Gross margin (note 6)	**13.6%**	14.0%	15.4%	13.1%	13.3%
Total operating margin (note 1)	**2.2%**	2.1%	1.7%	0.6%	2.0%
After tax return on equity (note 2)	**21.0%**	5.2%	0.7%	(73.8%)	12.7%
Basic earnings per share (note 3)	**3.7p**	0.6p	0.1p	(18.0p)	4.6p
Underlying earnings per share (notes 3 and 4)	**2.3p**	1.8p	0.8p	(2.5p)	3.6p
Dividends per share (note 5)	**-**	-	-	0.4p	2.9p
Dividend cover (times)	**-**	-	-	(9.8)	1.6
Interest cover (times) (note 6)	**1.4**	1.2	1.0	(2.6)	1.8
Gearing (notes 8 and 9)	**92.4%**	292.7%	297.8%	314.2%	108.1%

Business development summary

	2011	2010	2009	2008	2007
Number of franchise points	**235**	245	276	301	354

note 1 Total operating margin is calculated after adding back 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 Comparative earnings per share data has been restated for the impact of the bonus element of the Rights Issue.
note 4 Basic earnings per share adjusted to eliminate the effects of non-underlying operating, non-underlying finance and tax items, see note 2.8 of the financial statements.
note 5 Dividends per share are based on the interim dividend paid and final dividend declared for the year and has been restated for the impact of the bonus element of the Rights Issue.
note 6 The 2007 comparative amounts have been adjusted to eliminate the results of the discontinued operation.
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.

Pendragon | PLC

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