PENDRAGON
PLC

**FOR IMMEDIATE RELEASE** **23 August 2011**

# INTERIM RESULTS TO 30 JUNE 2011

Pendragon PLC, the UK's leading automotive retailer group, today reports interim results for the six months to 30 June 2011.

## Financial Highlights

| **Unaudited – 6 months to 30 June** | **UNDERLYING** | | **TOTAL** | |
|---|---|---|---|---|
| **£m** | **2011** | **2010** | **2011** | **2010** |
| Revenue | 1,773.2 | 1,817.4 | 1,773.2 | 1,833.0 |
| Operating profit | 42.5 | 40.1 | 42.5 | 39.0 |
| **Profit before tax** | **17.7** | **15.7** | **18.2** | **13.3** |
| *Earnings per share* | *2.0p* | *1.6p* | *2.0p* | *1.3p* |
| *Operating margin* | *2.4%* | *2.2%* | *2.4%* | *2.1%* |
| *Net borrowings* | - | - | *294.9* | *346.7* |

## Executive Summary

- Underlying profit before tax of £17.7 million, an increase of 12.7% from £15.7 million in 2010.
- Underlying operating margin of 2.4%, an increase of 20 basis points from 2.2% in 2010.
- Net borrowings of £294.9 million, a reduction of £51.8 million compared to 30 June 2010.
- Successful recapitalisation of the Group through a £75.2 million gross Rights Issue subsequent to 30 June 2011.
- Revised facilities extend the maturity profile of the Group's borrowing facilities to 30 June 2014.
- Current pension deficit will be eliminated via a property-backed transaction that reduces cash outflow by an estimated £46 million to December 2014.

Trevor Finn,  Chief Executive, commented:

*"The first half of 2011 has been an exciting period for the Group.  Pendragon has successfully completed the raising of £75 million from a Rights Issue, extended the maturity of its banking facilities on better terms and implemented a Pension Deficit Reduction Plan.  The recapitalisation of the Group and the revised banking facilities provide greater strength and flexibility for the future.  Pendragon has continued to show strong operational and financial performance.  The success of our operational initiatives has again helped the Group's performance in its aftersales and used businesses despite a challenging macro-economic environment. Overall, Pendragon continues to perform in line with the Board's expectations for the full year."*

**Enquiries:**


| | | |
|---|---|---|
| Pendragon PLC | Trevor Finn, Chief Executive<br>Tim Holden, Finance Director | Tel: 01623 725114 |
| Finsbury | Gordon Simpson<br>Philip Walters | Tel: 0207 2513801 |


## CHIEF EXECUTIVE'S OPERATIONAL REVIEW

### Introduction and markets

Pendragon is the largest independent operator of franchised motor vehicle dealerships in the UK.  The Group operates 237 franchise points, of which 9 are in California.  Pendragon sells and services a broad range of new and used motor cars and commercial vehicles and has a substantial presence in the UK vehicle leasing, wholesale parts and dealership management system markets.

Pendragon's motor car business operates under the brands of Stratstone (for prestige vehicles) and Evans Halshaw (for the volume brands).  Chatfields is Pendragon's commercial van and truck business, selling and servicing vehicles within a range of commercial vehicle brands.

The improved financial results for the first six months to 30 June 2011 reflect the Group's continued success of key operational initiatives in the aftersales and used car activities, strong cost control and operating efficiencies and a well-managed balance sheet. Underlying profit before tax has increased by 12.7% in the period to £17.7 million with a strong recovery in the Evans Halshaw division and continued outperformance in the California business. The performance of the Stratstone division was below 2010's strong first half. However, new product roll-outs of Range Rover Evoque and Jaguar XF in the second half of 2011 are expected to have a positive impact on the second half performance within the Stratstone division.

Aftersales remain a key area of focus, being the most profitable activity for the Group. The performance of the aftersales department has been impacted by a reduction in warranty work and the less than 3 year old car parc, following a reduction in new car registrations since 2008. However, despite these conditions, Pendragon's aftersales gross profit remained broadly flat, down just 0.9% on a like for like basis.

The used vehicle market represents a significant opportunity for growth for Pendragon, with a national used car market of around 6.9 million units currently. The UK used car market has shown further signs of recovery during the first quarter of 2011. According to the latest available data from Experian plc, sales in the used car market increased year on year by 3.8% during the first quarter of 2011. The Group continues to significantly outperform the market with like for like used car volumes rising by 13.2% compared to the prior year. Whilst used margins have fallen slightly, prices in the UK used car market are showing the normal seasonal trends. Overall the combined effect of volume and margin has resulted in used retail gross profit increasing by 4.1% on a like for like basis.

During the period to June 2011 total UK new car registrations fell by 7.1%. Retail car registrations decreased by 18.1% with fleet and business registrations increased by 3.1%. However, excluding the additional volume generated by the scrappage scheme in 2010, retail registrations increased by 2.4%. For the brands we represent, retail registrations excluding the scrappage scheme decreased by 2.9%. Our new retail sales volumes have outperformed the market increasing by 0.7% on a like for like basis excluding scrappage.

Overall the business has achieved an underlying operating profit of £42.5 million (2010: £40.1 million), underlying profit before tax of £17.7 million (2010: £15.7 million) and a profit before tax of £18.2 million (2010: £13.3 million). We are reporting underlying basic earnings per share of 2.0 pence for the period compared to 1.6 pence in 2010. The Group is pleased to report that as a result of improved cash generation it has reduced net borrowings by £51.8 million since June 2010 to £294.9 million.

Results continue to improve and subsequent to 30 June 2011 the recapitalisation will be a key step forward for the Group with a lower debt profile. The recapitalisation of the Group has been achieved via a £75.2 million gross Rights Issue, which has led to a lower debt facility of £360 million secured to 30 June 2014 on more favourable terms. Furthermore the Group has a new Pension Deficit Reduction Plan that will enable the current pension deficit to be eliminated through a property-backed transaction that reduces cash outflow by £46 million over the period to December 2014.

Subsequent to 30 June 2011 the net proceeds of the rights issue have been received, the Pension Deficit Reduction Plan has been implemented and the improved terms of the revised debt facilities have become effective.

**Results**

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

| £m | 2011 | 2010 |
|---|---|---|
| **Revenue** | **1,773.2** | **1,833.0** |
| Underlying operating profit | 42.5 | 40.1 |
| Non-underlying operating expense | - | (1.4) |
| **Operating profit before other income** | **42.5** | **38.7** |
| Other income – (losses) / gains on sales of businesses and property | (0.2) | 0.3 |
| **Operating profit** | **42.3** | **39.0** |
| Net finance costs | (24.1) | (25.7) |
| **Profit before tax** | **18.2** | **13.3** |
| Tax | (4.9) | (4.9) |
| **Profit after tax** | **13.3** | **8.4** |
| **Underlying profit before tax** | **17.7** | **15.7** |
| Earnings per share – basic | 2.0p | 1.3p |
| Earnings per share – underlying | 2.0p | 1.6p |
| Dividend per share | - | - |

**Revenue** is down £59.8 million for the six months to 30 June 2011 compared to 2010. Group like for like turnover has increased by £3.5 million reflecting improvements in used volume performance. The Group continues to move away from lower margin fleet activity. Of the total £3.5 million increase in like for like turnover, used retail turnover is up 14.5% on a like for like basis with new turnover down by 8.6% on a like for like basis due mainly to reduced fleet activity.

**Underlying operating profit** was £42.5 million compared to £40.1 million in the first half of last year. The underlying operating margin was 2.4% (2010: 2.2%). The improvement in operating margin of 8.6% is due to further improvements in our aftersales gross margin and operating cost leverage. Aftersales margin improvements ensured that despite reduced turnover as a result of the car parc decline and reduced warranty work, overall aftersales gross profit was only 0.9% behind the prior year on a like for like basis. Aftersales gross margin has increased from 57.3% to 59.9% on a like for like basis over the period. Used retail gross profit has increased by 4.1% on a like for like basis over the prior year due to significant outperformance of used volume. In the new department, gross profit has decreased by 7.2% on a like for like basis.

**Non-underlying items** relate to property disposals and pension costs. In the prior year we recognised closure costs of £1.4 million, whereas in 2011 any closure costs are shown within the underlying results for the business. Property and business losses on the sale of property were £(0.2) million in 2011 (2010: £0.3 million profit). Additionally, within the non-underlying results, income relating to net financing on pension obligations was £0.7 million in 2011 (2010: £(1.3) million cost).

**Underlying financing costs** were £24.8 million which compares to £24.4 million in the prior year. The first six months do not reflect any of the benefit from the revised facility level or terms which became effective on 22 August 2011.

**Operational review**

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

Underlying revenue and underlying operating profit by segment for the six months ended 30 June are shown below:

| £m | 2011 | | 2010 | |
|---|---|---|---|---|
| | Revenue | Underlying operating profit | Revenue | Underlying operating profit |
| **Stratstone** | 634.8 | 15.5 | 672.4 | 17.1 |
| **Evans Halshaw** | 974.6 | 14.4 | 984.0 | 12.1 |
| **Chatfields** | 36.1 | 1.1 | 40.5 | 1.1 |
| **California** | 83.5 | 2.5 | 79.7 | 2.1 |
| **Support businesses** | 44.2 | 9.0 | 40.8 | 7.7 |

Underlying revenue, gross profit and gross margin by segment for the six months ended 30 June are shown below:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Revenue £m | Gross profit £m | Gross margin % | Revenue £m | Gross profit £m | Gross margin % |
| **Stratstone** | 634.8 | 81.9 | 12.9 | 672.4 | 93.9 | 14.0 |
| **Evans Halshaw** | 974.6 | 123.9 | 12.7 | 984.0 | 123.3 | 12.5 |
| **Chatfields** | 36.1 | 6.8 | 18.8 | 40.5 | 7.3 | 18.0 |
| **California** | 83.5 | 14.1 | 16.9 | 79.7 | 14.2 | 17.8 |
| **Support businesses** | 44.2 | 15.5 | 35.0 | 40.8 | 14.5 | 35.5 |

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

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Revenue £m | Gross profit £m | Gross margin % | Revenue £m | Gross profit £m | Gross margin % |
| **Aftersales** | 170.8 | 102.2 | 59.8 | 188.0 | 107.2 | 57.0 |
| **Used** | 679.5 | 65.1 | 9.6 | 608.6 | 63.9 | 10.5 |
| **New** | 764.7 | 59.4 | 7.8 | 864.9 | 66.6 | 7.7 |
| **Trade/wholesale** | 113.8 | (0.1) | (0.1%) | 115.1 | 1.0 | 0.9 |

**Motor retail business**

Pendragon's motor car business operate under the brands of Stratstone (for prestige vehicles) and Evans Halshaw (for the volume brands). Chatfields is Pendragon's commercial van and truck business, selling and servicing vehicles within a range of commercial vehicle brands. The results of the motor retail business are summarised in the following sections by each segment:

**Stratstone** is the UK's leading prestige motor car retailer with 95 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, Mini, Porsche, SAAB and Smart as well as four motorcycle franchises. The results for the six months ended 30 June are as follows:

| | Revenue | Gross profit | Gross margin | Underlying operating profit | Underlying operating margin | Total units sold | Gross profit per unit |
|---|---|---|---|---|---|---|---|
| | £m | £m | % | £m | % | '000 | £ |
| Existing | 630.3 | 81.8 | 13.0 | 16.1 | 2.6 | 21.9 | 2,132 |
| Disposed | 4.5 | 0.1 | 3.2 | (0.6) | (13.9) | 0.3 | (361) |
| **H1 2011** | **634.8** | **81.9** | **12.9** | **15.5** | **2.4** | **22.2** | **2,107** |
| H1 2010 | 672.4 | 93.9 | 14.0 | 17.1 | 2.5 | 24.8 | 2,158 |

Revenues were up by 2.7% year on year on a like for like basis. Like for like aftersales gross margins are strong at 60.1%, in line with the prior year. The aftersales sector gross profit decreased on a like for like basis by 5.5%, with retail activity flat but warranty work falling significantly by 15.6%. Used volume increased by 4.0% on a like for like basis in Stratstone, with used retail gross profit falling by 4.8%.

For the brands that Stratstone represents, total new vehicles registrations nationally were up by 1.3% on the prior year. However retail registrations decreased by 12.9% whereas fleet activity grew by 19.4%. Underlying retail registrations excluding scrappage decreased by 5.7% for the brands we represent, whereas Stratstone like for like retail registrations decreased by 6.5%. Overall new gross profit only decreased by 2.6% on a like for like basis.

**Evans Halshaw** is the UK's leading volume motor car retailer, with 125 franchise points. Evans Halshaw holds franchises to sell and service Chevrolet, Citroen, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall. The results for the six months ended 30 June are as follows:

| | **Revenue** | **Gross profit** | **Gross margin** | **Underlying operating profit** | **Underlying operating margin** | **Total units sold** | **Gross profit per unit** |
|---|---|---|---|---|---|---|---|
| | **£m** | **£m** | **%** | **£m** | **%** | **'000** | **£** |
| Existing | 956.2 | 121.9 | 13.3 | 14.6 | 1.6 | 88.4 | 805 |
| Disposed | 18.4 | 2.0 | 10.9 | (0.2) | (1.1) | 1.8 | 672 |
| **H1 2011** | **974.6** | **123.9** | **12.7** | **14.4** | **1.5** | **90.2** | **764** |
| H1 2010 | 984.0 | 123.3 | 12.5 | 12.1 | 1.2 | 88.2 | 785 |

Total revenues fell by 1.8% on a like for like basis over the prior year largely driven by fleet activity reductions. Like for like aftersales gross profit increased by 2.4% with aftersales margin at 64.4% which is an increase from 58.6% in the prior year. Used retail gross profit increased by 9.0% on a like for like basis with used volume increasing by a significant 15.9% year on year.

The new car market for the brands we represent decreased by 10.2% with retail volume down 24.0% and fleet volume flat. Excluding scrappage, underlying like for like retail volume decreased by 1.4%, whereas our retail sales volume on a like for like basis increased by 2.6%. Overall new gross profits have declined by 12.7% year on year, mainly due to the inclusion of scrappage in the prior year. Underlying operating profits have increased by £2.3 million which reflects our continued focus on managing our cost base.

**Chatfields** is Pendragon's commercial vans and trucks retailer with eight franchise points. Chatfields holds franchises to retail and/or service DAF, LDV, Nissan and Renault. Revenues were down 8.6% year on year on a like for like basis largely due to reductions in new retail volume. Importantly, gross profit on a like for like basis in aftersales increased by 1.6% with aftersales margins compared to the prior year at just over 38%. Encouragingly used volume increased by 31.3% as an early indicator of recovery within the sector. However, new vehicle sales in truck and commercial vehicle sector is behind the prior year by 14.9% reflecting current economic conditions.

**California** consists of nine franchise points in Southern California which operate Aston Martin, Jaguar and Land Rover brands. Turnover increased by 4.7% over the 2010 period largely owing to new vehicle sales resulting from strong Land Rover and Jaguar performance. New unit volume has increased by 14.8% and used volume has increased by 4.4% in the period to 30 June 2011 versus the prior year.

**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 results for the six months ended 30 June are summarised as follows:

| | **Revenue** | **Gross profit** | **Gross margin** | **Underlying operating profit** | **Underlying operating margin** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **%** | **£m** | **%** |
| **H1 2011** | **44.2** | **15.5** | **35.0** | **9.0** | **20.3** |
| H1 2010 | 40.8 | 14.5 | 35.5 | 7.7 | 19.0 |

The contract hire and leasing business generated an operating profit of £3.7 million from £2.9 million in the prior period. The fleet size has reduced to 10,000 at 30 June 2011 from 11,800 at 30 June 2010.

Pinewood Technologies, one of three main dealer management systems suppliers in the UK, continues to grow year on year. Operating profit for the period is up at £4.4 million versus the prior year of £4.2 million.

Quickco, our independent genuine parts wholesale business, improved with operating profit increasing to £0.9m from £0.6m in the prior year.

**Balance sheet and cash flow**

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 (approximately £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 per cent discount to the theoretical ex-right 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 has secured revised debt facilities of £360 million on more favourable terms with a maturity date of 30 June 2014. The Group's expectation is that the costs associated with setting up the revised facility will be treated as a non-underlying item in the second half of 2011. Thirdly, the Group has implemented a new Pension Deficit Reduction Plan that will unlock aggregate cash flow savings of an estimated £46 million in the period to December 2014. Under the Pensions Deficit Reduction Plan the Group will provide the Pension schemes with an investment which will generate a predictable property asset-backed income for the schemes. The new arrangements will enable the Group to benefit from lower annual cash contributions than the present arrangements.

The proceeds of the Rights Issue will allow the Group to improve its level of financial indebtedness towards the previously stated long-term Debt:Underlying EBITDA ratio target of 2:1, which the Directors believe will constitute an immediate and long-term benefit to Pendragon. 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. It is the Board's current intention for the Company to resume paying dividends in relation to its 2012 financial year onwards, subject to a review of the Group's position at that time.

The Group is also pleased to report a significant reduction in net borrowings over the prior year. Net borrowings were £294.9 million at 30 June 2011 which is a £51.8 million reduction versus the 30 June 2010 and a reduction of £30.6 million on the 31 December 2010. The Group's balance sheet remains a key strategic priority and area of focus.

Operating cash inflow during the period was £87.4 million, which compares with £2.9 million in the prior year. The operating cash flow includes an improvement in working capital of £26.3 million (2010: £57.6 million adverse outflow). This improved performance has largely been achieved by an improvement in vehicle creditors during the period.

Net replacement capital expenditure for the six months was £31.9 million (2010: £11.8 million). This includes refurbishments, movements in loan vehicles provided to aftersales service customers and in the contract hire fleet, the latter accounting for £13.9m of this net investment as a result of an increase in fleet additions during the first half of 2011 (2010: £2.3 million of net proceeds from fleet reduction). In addition net proceeds from property disposals were £1.0 million (2010: £1.7 million) and business disposals £0.9 million (2010: £0.1 million).

The Group continues to operate comfortably within the existing facility covenants. A scheduled repayment of term loan amounting to £20.0 million was made in June 2011.

**Risks and uncertainties**

We set out in our 2010 annual report the risk factors we believed could cause our actual future Group results to differ materially from expected results. The risks identified were: business conditions and adverse economic conditions, the level of new vehicle production, vehicle manufacturer dependencies, changes to manufacturers' incentive programmes, used vehicle prices, franchise agreements, liquidity and financing, regulatory compliance, competition, reliance on certain members of management staff, failure of information systems, reliance on the use of significant estimates and legislative changes in relation to the distribution and sales of vehicles. These were set out on pages 16-17 and page 25 of the 2010 annual report. The Board has recently reviewed the risk factors and confirms that they should remain valid for the rest of the year. For the remainder of the year the Board considers the main areas of risk and uncertainty that could impact profitability to be the general economy, used car prices and consumer demand.

**Current trading and prospects**

The recapitalisation marks a turning point for the Group with the securing of borrowing facilities to 30 June 2014 on better terms and the completion of a £75 million Rights Issue. The Group's cashflow will be further enhanced by £46 million to December 2014 by a reduction in contributions to the Group's pension schemes. Pendragon's encouraging performance in 2010 has continued into 2011, despite a challenging economic environment. The Group has outperformed the market across its used car and new car businesses and demonstrated continuing resilience in its aftersales business. Underlying profit before tax for the six months to 30 June 2011 was £17.7 million, £2.0 million ahead of the same period in the prior year, reflecting the benefits of further increases in used vehicle volumes, a strategy of focusing on higher margin business at the expense of, in particular, low margin fleet activity, and the positive impact of operational gearing as management continues to focus on controlling the Group's cost base. Whilst recently the markets and global economic conditions have been turbulent, overall Pendragon is performing in line with the Board's expectations for the full year.

**TREVOR FINN**
**Chief Executive**
**23 August 2011**

**Condensed Consolidated Income Statement**

**Interim Results**
For the six months ended 30 June 2011

| | 6 Months to 30.06.11 | | | 6 Months to 30.06.10 | | Year to 31.12.10 | |
|---|---|---|---|---|---|---|---|
| | Underlying £m | Non-underlying £m | **Total £m** | Underlying £m | Total £m | Underlying £m | Total £m |
| Revenue | 1,773.2 | - | **1,773.2** | 1,817.4 | 1,833.0 | 3,534.3 | 3,575.0 |
| Cost of sales | (1,531.0) | - | **(1,531.0)** | (1,564.2) | (1,577.9) | (3,037.8) | (3,075.6) |
| **Gross profit** | 242.2 | - | **242.2** | 253.2 | 255.1 | 496.5 | 499.4 |
| Operating expenses | (199.7) | - | **(199.7)** | (213.1) | (216.4) | (421.4) | (436.5) |
| Operating profit before other income | 42.5 | - | **42.5** | 40.1 | 38.7 | 75.1 | 62.9 |
| Other income – (losses) / gains on sale of businesses and property | - | (0.2) | **(0.2)** | - | 0.3 | - | 0.3 |
| **Operating profit** | 42.5 | (0.2) | **42.3** | 40.1 | 39.0 | 75.1 | 63.2 |
| Finance expense (note 8) | (25.1) | (10.3) | **(35.4)** | (24.8) | (35.4) | (50.8) | (72.0) |
| Finance income (note 9) | 0.3 | 11.0 | **11.3** | 0.4 | 9.7 | 0.9 | 19.8 |
| Net finance costs | (24.8) | 0.7 | **(24.1)** | (24.4) | (25.7) | (49.9) | (52.2) |
| **Profit before taxation** | 17.7 | 0.5 | **18.2** | 15.7 | 13.3 | 25.2 | 11.0 |
| Income tax expense (note 10) | (4.7) | (0.2) | **(4.9)** | (5.6) | (4.9) | (9.1) | (5.4) |
| **Profit for the period** | 13.0 | 0.3 | **13.3** | 10.1 | 8.4 | 16.1 | 5.6 |
| **Earnings per share** | | | | | | | |
| Basic earnings per share (note 12) | | | **2.0p** | | 1.3p | | 0.9p |
| Diluted earnings per share (note 12) | | | **1.9p** | | 1.2p | | 0.9p |

| **Non GAAP measure** | | | |
|---|---|---|---|
| Underlying basic earnings per share (note 12) | **2.0p** | 1.6p | 2.5p |
| Underlying diluted earnings per share (note 12) | **1.9p** | 1.5p | 2.4p |

All amounts are unaudited

**Condensed Consolidated Statement of Comprehensive Income**

| | **6 Months to 30.06.11 £m** | 6 Months to 30.06.10 £m | 12 Months to 31.12.10 £m |
|---|---|---|---|
| Profit for the period | **13.3** | 8.4 | 5.6 |
| Other comprehensive income: | | | |
| Foreign currency translation differences of foreign operations | **(0.2)** | 0.3 | 0.1 |
| Defined benefit plan actuarial gains and losses | **21.8** | (3.8) | 19.9 |
| Income tax relating to defined benefit plan actuarial gains and losses | **(5.7)** | 1.1 | (5.6) |
| Adjustment in respect of minimum funding requirement on defined benefit plans | **(24.4)** | (8.3) | (21.3) |
| Income tax relating to adjustment in respect of minimum funding requirement on defined benefit plans | **6.4** | 2.3 | 6.0 |
| Other comprehensive income for the period, net of tax | **(2.1)** | (8.4) | (0.9) |
| Total comprehensive income for the period | **11.2** | - | 4.7 |

**Statement of Changes in Equity**

| | Share capital £m | Share premium £m | Other reserves £m | Translation differences £m | Accumulated profit £m | **Total £m** |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2010** | 33.1 | 56.8 | 15.1 | (0.6) | 1.5 | **105.9** |
| **Total comprehensive income for 2010** | | | | | | |
| Profit for the period | - | - | - | - | 8.4 | **8.4** |
| Other comprehensive income for the period, net of tax | - | - | - | 0.3 | (8.7) | **(8.4)** |
| **Total comprehensive income for the period** | - | - | - | 0.3 | (0.3) | **-** |
| Issue of ordinary shares | 0.1 | - | - | - | (0.1) | **-** |
| Share based payments | - | - | - | - | 0.7 | **0.7** |
| **Balance at 30 June 2010** | 33.2 | 56.8 | 15.1 | (0.3) | 1.8 | **106.6** |
| **Balance at 1 January 2011** | 33.4 | 56.8 | 15.1 | (0.5) | 6.4 | **111.2** |
| **Total comprehensive income for 2011** | | | | | | |
| Profit for the period | - | - | - | - | 13.3 | **13.3** |
| Other comprehensive income for the period, net of tax | - | - | - | (0.2) | (1.9) | **(2.1)** |
| **Total comprehensive income for the period** | - | - | - | (0.2) | 11.4 | **11.2** |
| Share based payments | - | - | - | - | 0.4 | **0.4** |
| **Balance at 30 June 2011** | 33.4 | 56.8 | 15.1 | (0.7) | 18.2 | **122.8** |

## Condensed Consolidated Balance Sheet

| | **30.06.11** | 30.06.10 | 31.12.10 |
|---|---|---|---|
| | **£m** | £m | £m |
| **Non-current assets** | | | |
| Property, plant and equipment | **292.6** | 300.0 | 284.5 |
| Goodwill | **367.7** | 371.4 | 367.7 |
| Other intangible assets | **3.7** | 3.3 | 3.5 |
| Derivative financial instruments | **11.7** | 33.1 | 27.0 |
| Deferred tax assets | **-** | 1.9 | 0.1 |
| **Total non-current assets** | **675.7** | 709.7 | 682.8 |
| **Current assets** | | | |
| Inventories | **558.5** | 518.1 | 492.8 |
| Trade and other receivables | **118.9** | 131.9 | 110.2 |
| Derivative financial instruments | **10.4** | - | - |
| Cash and cash equivalents | **95.4** | 63.7 | 91.2 |
| Non-current assets classified as held for sale | **28.5** | 25.1 | 25.1 |
| **Total current assets** | **811.7** | 738.8 | 719.3 |
| **Total assets** | **1,487.4** | 1,448.5 | 1,402.1 |
| **Current liabilities** | | | |
| Interest bearing loans and borrowings | **(347.5)** | (67.0) | (67.4) |
| Trade and other payables | **(825.9)** | (741.2) | (714.4) |
| Deferred income | **(0.1)** | - | (0.1) |
| Current tax payable | **(24.7)** | (24.2) | (25.0) |
| Provisions | **(10.2)** | (17.3) | (10.9) |
| **Total current liabilities** | **(1,208.4)** | (849.7) | (817.8) |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | **(64.9)** | (376.5) | (376.3) |
| Deferred income | **(18.9)** | (19.8) | (18.9) |
| Deferred tax liabilities | **(3.2)** | - | - |
| Retirement benefit obligations | **(62.1)** | (88.9) | (69.7) |
| Provisions | **(7.1)** | (7.0) | (8.2) |
| **Total non-current liabilities** | **(156.2)** | (492.2) | (473.1) |
| **Total liabilities** | **(1,364.6)** | (1,341.9) | (1,290.9) |
| **Net assets** | **122.8** | 106.6 | 111.2 |
| **Capital and reserves** | | | |
| Called up share capital | **33.4** | 33.2 | 33.4 |
| Share premium account | **56.8** | 56.8 | 56.8 |
| Capital redemption reserve | **2.5** | 2.5 | 2.5 |
| Other reserves | **12.6** | 12.6 | 12.6 |
| Translation reserve | **(0.7)** | (0.3) | (0.5) |
| Retained earnings | **18.2** | 1.8 | 6.4 |
| **Total equity attributable to equity shareholders of the Company** | **122.8** | 106.6 | 111.2 |

All amounts are unaudited

## Condensed Consolidated Cash Flow Statement

| | **6 Months to 30.06.11 £m** | 6 Months to 30.06.10 £m | 12 Months to 31.12.10 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | **13.3** | 8.4 | 5.6 |
| Adjustment for net financing expense | **24.1** | 25.7 | 52.2 |
| Adjustment for taxation | **4.9** | 4.9 | 5.4 |
| | **42.3** | 39.0 | 63.2 |
| Loss / (profit) on sale of businesses and property | **0.2** | (0.3) | (0.3) |
| Depreciation and amortisation | **18.2** | 21.1 | 40.0 |
| Share based payments | **0.4** | 0.7 | 0.6 |
| Impairment of assets held for sale | **-** | - | 0.9 |
| Decrease / (increase) in working capital | **26.3** | (57.6) | (59.6) |
| Cash generated from operations | **87.4** | 2.9 | 44.8 |
| Interest paid | **(22.8)** | (21.2) | (37.8) |
| Interest received | **0.3** | 0.3 | 0.9 |
| Taxation paid | **(1.2)** | (0.7) | (1.4) |
| **Net cash from / (used in) operating activities** | **63.7** | (18.7) | 6.5 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of businesses | **0.9** | 0.1 | 4.9 |
| Purchase of property, plant and equipment | **(60.2)** | (46.1) | (99.3) |
| Proceeds from sale of property, plant and equipment | **29.3** | 36.0 | 83.6 |
| **Net cash used in investing activities** | **(30.0)** | (10.0) | (10.8) |
| **Cash flows from financing activities** | | | |
| Payment of capital element of finance lease rentals | **(0.5)** | (1.2) | (2.3) |
| Repayment of bank loans | **(30.0)** | (20.0) | (40.0) |
| Proceeds from bank loans | **-** | 25.0 | 50.0 |
| **Net cash (used in) / from financing activities** | **(30.5)** | 3.8 | 7.7 |
| Effects of exchange rate changes on cash held | **1.0** | 1.8 | 1.0 |
| Net increase / (decrease) in cash and cash equivalents | **4.2** | (23.1) | 4.4 |
| Opening cash and cash equivalents | **91.2** | 86.8 | 86.8 |
| **Closing cash and cash equivalents** (note 15) | **95.4** | 63.7 | 91.2 |

## Notes

### 1 Basis of preparation

Pendragon PLC is a company domiciled in the United Kingdom. The condensed consolidated financial interim financial statements of the Company as at and for the six months ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in jointly controlled entities.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

The condensed set of financial statements for the six months ended 30 June 2011 are unaudited but have been reviewed by the auditors. The independent review report is set out below.

### 2 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010, which are prepared in accordance with International Financial Reporting Standards as adopted by the EU.

These condensed consolidated interim financial statements were approved by the board of directors on 23 August 2011.

### 3 Significant accounting policies

As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2010.

Adoption of new and revised standards

The following standards and interpretations are applicable to the Group and have been adopted in 2011 as they are mandatory for the year ended 31 December 2011, however, the adoption of these standard has had no significant impact.

• 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.

• 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.

• IAS 24 'Related Party Disclosures (revised 2009)' - The changes introduced by IAS 24 (2009) relate mainly to the definition of a related party.

• 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.

There are no other new standards, amendments to standards or interpretations mandatory for the first time for the year ending 31 December 2011.

### 4 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

During the six months ended 30 June 2011 management reassessed its estimates and assumptions in respect of employee post retirement benefit obligations. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates and return on assets, details of which are provided in note 18 below.

**5** The comparative figures for the financial year ended 31 December 2010 are extracted from the Group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2)or(3) of the Companies Act 2006.

**6** **Non-underlying items**

Expenses and income incurred or received during the year, which due to their size and nature of being items that are typically non-recurring, are drawn out for separate disclosure as non-recurring items.

| | **6 Months to 30.06.11 £m** | 6 Months to 30.06.10 £m | 12 Months to 31.12.10 £m |
|---|---|---|---|
| Within turnover: | | | |
| Turnover from closed businesses | **-** | 15.6 | 26.0 |
| Turnover from start-up businesses | **-** | - | 14.7 |
| | **-** | 15.6 | 40.7 |
| Within cost of sales: | | | |
| Cost of sales of closed businesses | **-** | (13.7) | (23.7) |
| Cost of sales of start-up businesses | **-** | - | (14.1) |
| | **-** | (13.7) | (37.8) |
| Within operating expenses: | | | |
| Operating expenses and closure costs incurred on closed businesses | **-** | (3.3) | (8.9) |
| Operating expenses incurred in start-up businesses | **-** | - | (3.4) |
| Impairment of assets held for sale | **-** | - | (0.9) |
| Redundancy costs | **-** | - | (1.9) |
| | **-** | (3.3) | (15.1) |
| Within other income - gains on the sale of businesses and property: | | | |
| Losses on the sale of businesses | **(0.1)** | - | - |
| (Losses) / gains on the sale of property | **(0.1)** | 0.3 | 0.3 |
| | **(0.2)** | 0.3 | 0.3 |
| Within finance expense: | | | |
| Interest on pension scheme obligations | **(10.3)** | (10.6) | (21.2) |
| Within finance income: | | | |
| Interest on pension scheme assets | **11.0** | 9.3 | 18.9 |
| Total non-recurring items | **0.5** | (2.4) | (14.2) |

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 any subsequent closure activity going forward will be deemed to be part of the on-going underlying business and as such no non-underlying losses are reported in 2011. During the prior period the Group recognised losses of £1.4m which included wind down expenses, losses on assets, redundancy and vacant property occupancy costs on businesses closed in that period.

Other income, being the (loss) / profit on disposal of businesses and property comprises £0.1m loss on sale of properties (2010 : profit £0.3m) and £0.1m loss on the disposal of motor vehicle dealerships during the period (2010 : £nil).

The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility of this amount. A net credit of £0.7m has been recognised during the period (2010 : cost £1.3m).

**7 Segmental analysis**

| **6 month period to 30 June 2011** | Stratstone £m | Evans Halshaw £m | Chatfields £m | California £m | Leasing £m | Quickco £m | Pinewood £m | Central £m | **Total £m** |
|---|---|---|---|---|---|---|---|---|---|
| Total gross segment turnover | 634.8 | 974.5 | 36.1 | 83.5 | 28.2 | 31.4 | 15.0 | - | **1,803.5** |
| Inter-segment turnover | - | - | - | - | (8.7) | (11.1) | (10.5) | - | **(30.3)** |
| Revenue from external customers | 634.8 | 974.5 | 36.1 | 83.5 | 19.5 | 20.3 | 4.5 | - | **1,773.2** |
| Operating profit before non-underlying items | 17.2 | 16.2 | 1.3 | 2.5 | 3.9 | 1.1 | 4.5 | (4.2) | **42.5** |
| Other income and non-underlying items | - | - | - | - | - | - | - | (0.2) | **(0.2)** |
| Operating profit | 17.2 | 16.2 | 1.3 | 2.5 | 3.9 | 1.1 | 4.5 | (4.4) | **42.3** |
| Finance expense | (1.6) | (2.3) | - | (0.5) | - | - | - | (31.0) | **(35.4)** |
| Finance income | - | - | - | - | - | - | 0.2 | 11.1 | **11.3** |
| Profit before tax | 15.6 | 13.9 | 1.3 | 2.0 | 3.9 | 1.1 | 4.7 | (24.3) | **18.2** |

Reconciliation to tables in Chief Executive's operational review

| | Stratstone £m | Evans Halshaw £m | Chatfields £m | California £m | Leasing £m | Quickco £m | Pinewood £m | Central £m | **Total £m** |
|---|---|---|---|---|---|---|---|---|---|
| Operating profit as above | 17.2 | 16.2 | 1.3 | 2.5 | 3.9 | 1.1 | 4.5 | (4.2) | **42.5** |
| Allocation of central costs | (1.7) | (1.8) | (0.2) | - | (0.2) | (0.2) | (0.1) | 4.2 | **-** |
| Segment result as presented in CEO tables | 15.5 | 14.4 | 1.1 | 2.5 | 3.7 | 0.9 | 4.4 | - | **42.5** |

| **6 month period to 30 June 2010** | Stratstone £m | Evans Halshaw £m | Chatfields £m | California £m | Leasing £m | Quickco £m | Pinewood £m | Central £m | **Total £m** |
|---|---|---|---|---|---|---|---|---|---|
| Total gross segment turnover | 672.4 | 984.0 | 40.5 | 79.7 | 21.7 | 33.3 | 15.5 | - | **1,847.1** |
| Inter-segment turnover | - | - | - | - | (8.6) | (9.7) | (11.4) | - | **(29.7)** |
| | 672.4 | 984.0 | 40.5 | 79.7 | 13.1 | 23.6 | 4.1 | - | **1,817.4** |
| Revenue from non-underlying activities | 15.3 | 0.3 | - | - | - | - | - | - | **15.6** |
| Revenue from external customers | 687.7 | 984.3 | 40.5 | 79.7 | 13.1 | 23.6 | 4.1 | - | **1,833.0** |
| Operating profit before non-underlying items | 20.3 | 15.3 | 1.3 | 2.1 | 3.1 | 0.8 | 4.3 | (7.1) | **40.1** |
| Other income and non-underlying items | (1.3) | (0.1) | - | - | - | - | - | 0.3 | **(1.1)** |
| Operating profit | 19.0 | 15.2 | 1.3 | 2.1 | 3.1 | 0.8 | 4.3 | (6.8) | **39.0** |
| Finance expense | - | (1.6) | (0.1) | (0.5) | - | - | - | (33.2) | **(35.4)** |
| Finance income | 0.3 | - | - | - | - | - | 0.1 | 9.3 | **9.7** |
| Profit before tax | 19.3 | 13.6 | 1.2 | 1.6 | 3.1 | 0.8 | 4.4 | (30.7) | **13.3** |

Reconciliation to tables in Chief Executive's operational review

| | Stratstone £m | Evans Halshaw £m | Chatfields £m | California £m | Leasing £m | Quickco £m | Pinewood £m | Central £m | **Total £m** |
|---|---|---|---|---|---|---|---|---|---|
| Operating profit as above | 20.3 | 15.3 | 1.3 | 2.1 | 3.1 | 0.8 | 4.3 | (7.1) | **40.1** |
| Allocation of central costs | (3.2) | (3.2) | (0.2) | - | (0.2) | (0.2) | (0.1) | 7.1 | **-** |
| Segment result as presented in CEO tables | 17.1 | 12.1 | 1.1 | 2.1 | 2.9 | 0.6 | 4.2 | - | **40.1** |

| **Year ended 31 December** | Stratstone | Evans | Chatfields | California | Leasing | Quickco | Pinewood | Central | **Total** |
|---|---|---|---|---|---|---|---|---|---|

| 2010 | £m | Halshaw £m | £m | £m | £m | £m | £m | £m | **£m** |
|---|---|---|---|---|---|---|---|---|---|
| Total gross segment turnover | 1,317.7 | 1,902.9 | 75.0 | 159.5 | 44.9 | 61.9 | 23.8 | - | **3,585.7** |
| Inter-segment turnover | - | - | - | - | (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 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 | (2.7) | (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** |
| 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 Chief Executive's operational review

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Operating profit as above | 31.9 | 24.1 | 1.8 | 5.8 | 7.8 | 1.8 | 9.4 | (7.5) | **75.1** |
| Allocation of central costs | (2.7) | (3.5) | (0.4) | - | (0.3) | (0.3) | (0.3) | 7.5 | **-** |
| Segment result as presented in CEO tables | 29.2 | 20.6 | 1.4 | 5.8 | 7.5 | 1.5 | 9.1 | - | **75.1** |

**8 Finance costs**

| Recognised in profit and loss | **6 Months to 30.06.11 £m** | 6 Months to 30.06.10 £m | 12 Months to 31.12.10 £m |
|---|---|---|---|
| Interest payable on bank borrowings and loan notes | **17.3** | 20.0 | 39.0 |
| Vehicle stocking plan interest | **6.4** | 3.8 | 9.6 |
| Interest payable on finance leases | **-** | 0.2 | 0.3 |
| Interest on pension scheme obligations (non-underlying - see note 6) | **10.3** | 10.6 | 21.2 |
| Less: interest capitalised | - | - | (0.1) |
| Total interest expense | **34.0** | 34.6 | 70.0 |
| Net fair value expense in respect of hedging relationships | **0.4** | - | 0.4 |
| Unwinding of discounts in contract hire residual values | **1.0** | 0.8 | 1.6 |
| Total finance expense | **35.4** | 35.4 | 72.0 |

**9 Finance income**

| Recognised in profit and loss | **6 Months to 30.06.11 £m** | 6 Months to 30.06.10 £m | 12 Months to 31.12.10 £m |
|---|---|---|---|
| Net fair value gain in respect of hedging relationships | **-** | 0.1 | - |
| Interest receivable on bank deposits | **0.3** | 0.3 | 0.9 |
| Interest on pension scheme assets (non-underlying - see note 6) | **11.0** | 9.3 | 18.9 |
| Total finance income | **11.3** | 9.7 | 19.8 |

**10 Taxation**

Based upon the anticipated profit on ordinary activities before taxation for the full year, the effective tax rate for 2011 is estimated at 27.1% (2010 : 33.4%). The effective rate for 2011 is higher than the current UK tax rate due to the relatively high value of expenses recognised in the income statement that are not tax deductible (namely goodwill impairment and depreciation on showrooms).

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. This will reduce the company's future current tax charge accordingly. The rate reduction to 26% effective from 1 April 2011 was substantively enacted on 29 March 2011. The further reduction to 25% effective from 1 April 2012 was substantively enacted on 5 July 2011.

Had the rate reduction from 26% to 25% been substantively enacted by the balance sheet date it would have the effect of reducing the deferred tax liability at that date by £0.3m. Proposed further changes to reduce the rate of corporation tax to 23% by 2014 were also included in the Budget but these changes have not been substantively enacted to date. It has not yet been possible to quantify the full anticipated effect of the announced further rate reductions to 23%, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liabilities / assets accordingly.

## 11 Dividends

No dividends have been paid or proposed during this and the prior period.

## 12 Earnings per share

| | **6 Months to 30.06.11 pence** | 6 Months to 30.06.10 pence | 12 Months to 31.12.10 pence |
|---|---|---|---|
| Basic earnings per share | **2.0** | 1.3 | 0.9 |
| Effect of adjusting items | **-** | 0.3 | 1.6 |
| Underlying basic earnings per share (Non GAAP measure) | **2.0** | 1.6 | 2.5 |
| Diluted earnings per ordinary share | **1.9** | 1.2 | 0.8 |
| Effect of adjusting items | **-** | 0.3 | 1.6 |
| Underlying diluted earnings per share (Non GAAP measure) | **1.9** | 1.5 | 2.4 |

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

| Number of shares (millions) | **30.06.11 Number** | 30.06.10 number | 31.12.10 number |
|---|---|---|---|
| Weighted average number of shares used in basic and adjusted earnings per share calculation | **649.7** | 642.7 | 644.4 |
| Weighted average number of dilutive shares under option | **30.2** | 36.9 | 30.2 |
| Diluted weighted average number of shares used in diluted earnings per share calculation | **679.9** | 679.6 | 674.6 |

| Earnings | **6 Months to 30.06.11 £m** | 6 Months to 30.06.10 £m | 12 Months to 31.12.10 £m |
|---|---|---|---|
| Earnings for basic and diluted earnings per share calculation | **13.3** | 8.4 | 5.6 |
| Adjusting items: | | | |
| Impairment of assets held for sale | **-** | - | 0.9 |
| Losses incurred on closed businesses | **-** | 1.4 | 6.6 |
| Start-up costs and losses incurred on start-up of businesses | **-** | - | 2.8 |
| Redundancy costs | **-** | - | 1.9 |
| Loss / (profit) on business and property disposals | **0.2** | (0.3) | (0.3) |
| Net interest on pension schemes | **(0.7)** | 1.3 | 2.3 |
| Tax effect of adjusting items | **0.2** | (0.7) | (3.7) |
| Earnings for adjusted earnings per share calculation | **13.0** | 10.1 | 16.1 |

The directors consider that the adjusted earnings per share figures provide a better measure of comparative performance.

## 13 Business disposals

During the period the Group has disposed of certain assets of two motor vehicle dealerships generating net proceeds of £0.9m and a loss on disposal of £0.1m. In addition the Group sold property generating net proceeds of £1.0m and a loss on disposal of £0.1m.

## 14 Assets held for sale

The Group holds a number of freehold properties that are currently being marketed for sale which are expected to be disposed of during the next 12 months. No impairment losses have been recognised in the income statement for the six months to 30 June 2011 on re-measurement of

these properties to the lower of their carrying amount and their fair value less costs to sell (2010 : £nil).

During the period to 30 June 2011 non-current assets classified as held for sale disposed of realised a loss of £0.1m.

The major classes of assets comprising the assets held for sale are:

| | **30.06.11** | 30.06.10 | 31.12.10 |
|---|---|---|---|
| | **£m** | £m | £m |
| Property, plant and equipment | **28.5** | 25.1 | 25.1 |

| 15 Cash and cash equivalents | **30.06.11** | 30.06.10 | 31.12.10 |
|---|---|---|---|
| | **£m** | £m | £m |
| Bank balances and cash equivalents | **95.4** | 63.7 | 91.2 |

| 16 Net borrowings | **30.06.11** | 30.06.10 | 31.12.10 |
|---|---|---|---|
| | **£m** | £m | £m |
| Cash and cash equivalents (note 15) | **95.4** | 63.7 | 91.2 |
| Current interest bearing loans and borrowings | **(347.5)** | (67.0) | (67.4) |
| Non-current interest bearing loans and borrowings | **(64.9)** | (376.5) | (376.3) |
| Derivative financial instruments | **22.1** | 33.1 | 27.0 |
| | **(294.9)** | (346.7) | (325.5) |

| 17 Provisions | **30.06.11** | 30.06.10 | 31.12.10 |
|---|---|---|---|
| | **£m** | £m | £m |
| Warranty service provision | **4.3** | 6.6 | 5.3 |
| Vacant property | **7.5** | 7.1 | 8.3 |
| VAT Assessment | **5.5** | 10.6 | 5.5 |
| | **17.3** | 24.3 | 19.1 |
| Non-current | **7.1** | 7.0 | 8.2 |
| Current | **10.2** | 17.3 | 10.9 |
| | **17.3** | 24.3 | 19.1 |

**18 Pension scheme obligations**

The net liability for defined benefit obligations has decreased from £69.7m at 31 December 2010 to £62.1m at 30 June 2011. The decrease of £7.6m comprises contributions of £9.5m, a credit to the income statement of £0.7m, a net actuarial gain of £21.8m and minimum funding adjustments of £24.4m. The net actuarial gain has arisen in part to changes in the principal assumptions used in the valuation of the scheme's assets and liabilities over those used at 31 December 2010. The assumptions subject to change are the discount rate of 5.7% (2010 : 5.5%), the inflation rate (RPI) of 3.6% (2010 : 3.5%), the inflation rate (CPI) of 2.8% (2010 : 3.0%) the rate of increase of pensions in payment of 3.13% (2010 : 3.15%).

**19 Related party transactions**

There have been no new related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group during that period and there have been no changes in the related party transactions described in the last annual report that could do so.

**20 Post balance sheet events**

On 14 July 2011 the Company announced a proposed, fully underwritten rights issue to raise gross proceeds of approximately £75.2m (approximately £70.8m net of expenses) by the issue of 751.6m new ordinary shares at 10 pence per share. This was approved by the

Company's shareholders in the General Meeting on 1 August 2011. The new shares were issued and admitted to trading on The London Stock Exchange on 17 August 2011 and proceeds from the issue of the new ordinary shares have now been received by the Company. The net proceeds of approximately £70.8 million have allowed the Group to improve its level of financial indebtedness towards the previously stated long-term Debt : Underlying EBITDA ratio target of 2 : 1. 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.

The Group has also announced confirmation of the extension of the maturity profile of its borrowing facilities to 30 June 2014, on improved terms. Further to this the Group has also agreed a pension transaction 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 to December 2014. The Group's current expectation is that the costs associated with setting up the revised facility will be treated as a non-underlying item in the second half of 2011.

**21 Risks and uncertainties**

The risk factors which could cause the Group's results to differ materially from expected results and the result of the Board's review of those risks are set out in the Chief Executive's operational review.

## Responsibility Statement

We confirm that to the best of our knowledge:

(a) The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
(b) The interim management report includes a fair review of the information required by:
(i) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
(ii) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board,

**TG Finn**
Chief Executive,

**TP Holden**
Finance Director

23 August 2011

## Independent Review Report to Pendragon PLC

### Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, statement of changes in equity, condensed consolidated balance sheet, condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

### Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.
As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

### Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

**M Steventon**
**for and on behalf of KPMG Audit Plc**
*Chartered Accountants*
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
23 August 2011