ANNUAL REPORT 08

Pendragon | PLC

CONTENTS

GROUP REVIEW

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Revenue (note 6)	**4,162.4**	5,060.2	5,058.5	3,247.4	3,132.8
Gross profit (note 6)	**543.2**	672.7	701.3	462.5	445.5
Operating (loss) / profit before other income (note 6)	**(130.9)**	87.3	139.7	97.5	84.9
(Loss) / profit before taxation (note 6)	**(200.6)**	46.5	97.7	66.4	70.1
Net assets (note 9)	**108.9**	307.2	306.0	239.3	219.1
Net borrowings (note 7)	**357.3**	332.0	369.7	177.0	246.8

Other financial information

Gross margin (note 6)	**13.1%**	13.3%	13.7%	14.1%	14.1%
Total operating margin (note 1 and 6)	**(3.1)%**	1.7%	2.8%	3.0%	2.7%
After tax return on equity (note 2)	**(77.0)%**	12.7%	24.8%	15.8%	22.7%
Basic earnings per share (note 3)	**(25.2)p**	6.5p	10.7p	7.0p	7.4p
Adjusted earnings per share (note 4)	**(3.0)p**	5.0p	7.5p	6.7p	6.0p
Dividends per share (note 5)	**0.50p**	4.00p	3.45p	2.64p	2.04p
Dividend cover (times)	**(10.1)**	1.6	3.1	2.6	3.7
Interest cover (times) (note 6)	**(2.3)**	1.8	2.4	2.6	2.9
Gearing (note 8 and 9)	**328.1%**	108.1%	120.8%	74.0%	112.6%

Business development summary

Number of franchises	**301**	354	390	289	244

note 1 Total operating margin is calculated after adding back goodwill impairment/amortisation and exceptional items, and excluding other income.

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

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

note 4 Basic earnings per share adjusted to eliminate the effects of non-recurring operating and tax items, see note 10 of the financial statements. It has been restated for the impact of the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 5 Dividends per share are based on the interim dividend paid and final dividend declared for the year. Dividends per share has been restated for the impact of the 2006 subdivision of the ordinary shares of 25p each into five new ordinary shares of 5p each.

note 6 All comparative amounts have been adjusted to eliminate the results of the discontinued operation (see note 6 of the financial statements).

note 7 Net borrowings comprise interest bearing loans and borrowings, cash and cash equivalents and derivate 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 (see note 1ad).

OPERATIONAL & BUSINESS REVIEW

Introduction

INTRODUCTION

The Group has faced the most challenging market conditions since the early nineties. The severe market conditions have resulted in the Group making an adjusted loss before tax of £29.6 million (2007: adjusted profit £42.0 million). After non recurring largely non-cash items, this increased to a loss before tax of £200.6 million for the year (2007: profit £46.5 million). Cash generated from operations was £53.6 million (2007: £160.0 million). Pendragon swiftly and decisively reduced its cost base and closed locations which ceased to be viable trading points yielding annual savings of £60 million.

Despite the severe market conditions, the Group has negotiated a new three year secured financing package with its lenders in the sum of £530 million. The principal terms of this secured financing package are as follows:

- three year financing package including the extension of the bank facilities and loan notes to April 2012
- the new bank facility has a margin of 3.25% above LIBOR, up from 0.9% above LIBOR under the previous arrangements
- warrants granted to the lender group amounting to 7.5% of the entire issued share capital
- a 1% fee on signing and a fee throughout the three year period of between 2.5% and 5.5% in total depending on certain conditions
- covenants are at levels that provide sufficient headroom and flexibility for the Group for the next three years

The implementation of the cost reduction measures, saving £60 million annually, and the Group's refinancing mean that it is now well placed to take advantage of markets when they recover and is currently trading in line with our expectations. Further information is set out below.

Financial performance summary

FINANCIAL PERFORMANCE SUMMARY

£m	**2008 Before non-recurring**	**2008 Total**	2007 Before non-recurring	2007 Total
Revenue	**4,025.5**	**4,162.4**	5,024.1	5,060.2
Underlying operating profit	**25.8**	**25.8**	101.3	101.3
Non recurring operating items	**-**	**(156.7)**	-	(14.0)
Operating (loss) / profit before other income	**25.8**	**(130.9)**	101.3	87.3
Other income – (loss) / gain on sale of property and businesses	**-**	**(5.2)**	-	18.5
Operating (loss) / profit	**25.8**	**(136.1)**	101.3	105.8
Finance costs	**(57.6)**	**(57.6)**	(60.1)	(60.1)
Non recurring finance costs	**-**	**(2.9)**	-	-
Share of joint venture profit / (loss)	**2.2**	**(4.0)**	0.8	0.8
(Loss) / profit before tax	**(29.6)**	**(200.6)**	42.0	46.5
Tax	**10.4**	**40.5**	(9.2)	(3.3)
Discontinued operation	**-**	**-**	-	(2.1)
(Loss) / profit after tax	**(19.2)**	**(160.1)**	32.8	41.1
Earnings per share – basic	**-**	**(25.2)p**	-	6.5p
Earnings per share – adjusted	**(3.0)p**	**(3.0)p**	5.0p	5.0p
Dividend per share	**0.5p**	**0.5p**	4.0p	4.0p

Primarily as a consequence of poor trading conditions and dealership closures, revenues fell to £4.2 billion in 2008 from £5.1 billion in 2007. Of the reduction, approximately £200 million related to businesses which we closed in the year with the balance being due mainly to the overall reduction in the new car market. Underlying operating profits were £25.8 million compared to £101.3 million in 2007 and each of our operating divisions remained profitable at this level other than Stratstone which made a small loss. The reduction in these trading profits is mainly due to a reduced volume of new car sales and lower margins in used car sales. After financing costs we made a loss before tax and non recurring items of £29.6 million compared to a profit of £42.0 million before tax and non recurring items in 2007.

OPERATIONAL & BUSINESS REVIEW
Continued

Non recurring items
NON RECURRING ITEMS

We have recognised a number of one off impairments and exceptional costs in 2008. These have arisen primarily due to the downturn in the UK economy. We have taken an appropriately prudent view on the valuation of assets and of potential future liabilities when assessing the level of provisions required in the current economic climate.

	2008 £m	2007 £m
Goodwill impairment	**(58.1)**	(6.8)
Impairment of Joint Venture	**(6.2)**	-
Fixed asset impairment and disposal (losses) / profit	**(32.3)**	18.5
Closed businesses and redundancy costs	**(25.1)**	(7.2)
Inventory write down	**(24.9)**	-
Refinancing related fees	**(12.7)**	-
VAT refund	**15.1**	-
VAT provision	**(26.8)**	-
Total	**(171.0)**	4.5

We are reporting net non recurring costs before tax of £171.0 million for 2008. These include £24.9 million of provisions relating to new and used car stock, £19.7 million of losses on closed businesses and £5.4 million of redundancy costs. We have impaired goodwill by £58.1 million and written off the total investment of £6.2 million in our property joint venture. We have impaired the carrying value of assets held for resale, mainly property, by £11.9 million, recorded an impairment charge for other fixed assets of £15.2 million and incurred losses on disposal of fixed assets of £5.2 million. In addition, we have incurred costs of £12.7 million relating to the refinancing of our borrowings. We have taken a cautious view relating to open VAT issues and made a provision of £26.8 million against them. During the year we received a VAT refund of £15.1 million in relation to claims which we had made for prior years. After net non recurring costs the Group made pre tax losses of £200.6 million. In 2007 the losses on closed businesses were not treated as non recurring costs. The 2007 comparative has been disclosed as a non recurring cost this year to ensure consistent presentation.

Dividend
DIVIDEND

An interim dividend of 0.5 pence was paid in October 2008 and no final dividend is proposed. This compares with 4.0 pence paid in respect of 2007. In the near term management will be focussed on conservation of cash and reduction of borrowings.

OPERATIONAL & BUSINESS REVIEW

Continued

Strategy

STRATEGY

Pendragon has become the largest independent operator of franchised motor car dealerships in the UK, mainly as a result of acquisitions, although there has also been substantial investment in greenfield sites.The Group now operates 292 franchises in the UK. As a result of its expansion Pendragon sells a broad range of new and used motor cars and commercial vehicles and has a substantial presence in the UK vehicle leasing, wholesale parts and dealership management software markets. Pendragon has developed and operates nine motor car franchises in California.

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

The franchise portfolio is constantly reviewed and dealerships that are determined to be uneconomical are closed or sold, or the location refranchised. This strategy has led to a number of closures during the last two years. It remains our intention to represent a broad range of vehicle manufacturers and have meaningful scale with them. Where we believe the long term prospects for a particular franchise are poor we will exit that franchise as soon as is practicable.

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

We have an established platform of businesses in California. It remains our intention to grow this part of the Group when there is an opportunity to do so.

Our markets

OUR MARKETS

Our principal market is in the UK and splits into three main areas: new vehicle sales, used vehicle sales and after sales service. The UK new car market is split in half between retail and fleet. Fleet business tends to be high volume and low margin. Whilst the Group does some fleet business we are highly selective as to which business we transact. In addition to being low margin, fleet business is higher risk than retail and consumes a disproportionate amount of working capital compared to the profits it generates. In 2008 the Group reduced its activity in this area for those reasons. The primary focus of the Group in the new car market is on retail sales.

On average over the last five years, the market for new cars in the UK has been 2.4 million. In 2008 the total number of new car registrations in the UK was 2.1 million, a reduction of 11.3% from 2007. In the brands that we represent the UK registrations were down 12.2% year on year. Like for like our new unit sales were down 14.4% year on year. The reduction in new car sales volume is expected to continue in 2009 with industry estimates ranging between 1.6 million and 1.9 million new vehicle registrations. Pendragon sold 158,000 new vehicles in 2008, which equates to 6.4% of the total market. This proportion is down on 2007 where Pendragon sales were 6.6% of the market.

Volumes of used cars sold in the UK have been around 7.5 million per annum over the last five years. In 2008 the Group sold 129,000 used cars in the UK, which was approximately 2% of the market. The Group has traditionally operated in only part of the market and retails used cars up to three or four years old. Over the past 18 months we have been moving into the older used car market and see this as strengthening the used car sales part of our business.

The total number of cars on the road in the UK has increased each year for the last five years and now stands at approximately 32 million. The size of the market for after sales has grown in line with the car parc in the UK and tends to be less affected by economic cycles as motor cars require regular maintenance and repair for both safety and performance reasons.

The Group also operates in certain ancillary markets. We operate a vehicle leasing and contract hire business in the UK. In the near term due to the recent unprecedented fall in used car values we expect the profitability of the leasing business to be lower. Profits are generated when we sell the used car after it is returned to us at the end of the lease period. Within the next two years we expect the profitability of our leasing business to return to more normal levels as the used car market becomes more stable.

We are a significant operator in the commercial van and truck market in the UK which has a market size of around 0.3 million new units per annum down 10.7% on the prior year. The key area in this market is after sales service which remained strong in 2008.

In the UK we have continued to build a presence in the market for dealer management software systems. The market for these systems is primarily linked to the number of franchised dealers and is served by a relatively small number of providers. We mainly sell into the UK and we see this as a good growth area for our business.

We operate a small division in California with Land Rover, Jaguar and Aston Martin franchises. The USA total car market was 13.2 million units in 2008, down by 18% on 2007. Land Rover volumes fell by 40% having been more significantly affected by consumer confidence and volatile fuel prices. The Jaguar brand was supported by the new XF model launched in April 2008 and as a consequence the decrease in Jaguar volumes of 5% was well ahead of the overall market. Although a low volume brand, Aston Martin unit sales increased by 33% in the year.

OPERATIONAL & BUSINESS REVIEW
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Operational Review

Our Group is structured operationally to reflect the range of business activities we undertake and we have five distinct trading divisions. The core vehicle retail business consists of two divisions, Stratstone and Evans Halshaw. Support businesses consist of leasing, parts wholesale and software.

During the year management has taken action in a number of areas to reduce the cost base of the business to reflect the downturn which has taken place in the market. The principal actions that we have taken have been to close loss making dealerships, reduce employee numbers primarily in the core business and reduce the levels of vehicle stock held by the Group. Management will continue to take action on the cost base of the business over the coming year to maintain it in line with expected activity levels. This is a dynamic area of management which is supported by our technology platform and management information systems.

The annualised estimated benefit to operating profit across the business of actions already taken to address the cost base of the business is in the region of £60 million.

In terms of dealership closures we completed the programme which we announced in 2007 and identified for closure additional businesses which had become unviable in the current economic climate. In total in the year we closed or sold 53 dealerships which had combined operating losses and closure costs of £19.7 million in 2008. We have also identified seven dealerships which will be closed in 2009. When deciding upon dealership closures management considers the level of losses which will be eliminated, the amount of business which will migrate to adjacent Group owned dealerships and the costs of closure which will primarily be stock disposal, redundancy and property costs.

In light of the falling market for new and used cars in 2008 a headcount reduction exercise was initiated early in the year. As a consequence there has been a 2,736 reduction in job roles on a like for like basis through a compulsory redundancy programme and through natural attrition and 3,712 overall including job roles relating to closed businesses. The job losses have been spread across all areas of the business. Resource levels continue to be monitored to ensure that the correct level is in place for the existing and projected activity levels. The annualised cost saving of this exercise is estimated at £49 million. The one off redundancy cost was £5.4 million.

A key dynamic in the used car market has been the unprecedented fall in wholesale used car prices. A number of industry leading sources have calculated the average fall in used car prices during 2008 and their analyses range from a 15% to a 25% fall. The impact on the 4x4 and premium sectors has been significantly more and hence has impacted our Stratstone brand to a greater degree than our volume business, Evans Halshaw, in 2008. The trend of falling prices appears to have run its course, with a strengthening of the market in early 2009.

BCA reports a 16% fall in wholesale prices between December 2007 and December 2008. Importantly, we have seen a recovery and stabilisation in wholesale prices in 2009, with prices rising by 15%.

In order to mitigate the impact of the falling prices in 2008 we embarked on a significant stock reduction programme. Our level of used stocks in the UK was reduced by nearly £100m in 2008 compared to the prior year, with £73m of the reduction achieved from June 2008 to December 2008. In addition, vehicles registered for our own use were reduced by £23m over the prior year. These stock reductions have been a key area of focus for local management who have been able to increase average used car stock turn in the second half of the year.

Revenues and operating profits by division are summarised below:

£m	2008 Revenue	2008 Operating (loss) / profit	2007 Revenue	2007 Operating profit
Stratstone	**1,357.7**	**(2.5)**	1,889.2	32.3
Evans Halshaw	**2,271.2**	**6.1**	2,666.5	35.6
Chatfields	**174.6**	**3.6**	195.5	5.0
Support businesses	**142.3**	**17.2**	160.9	23.8
USA	**148.9**	**1.4**	180.3	4.6

OPERATIONAL & BUSINESS REVIEW

Continued

Stratstone

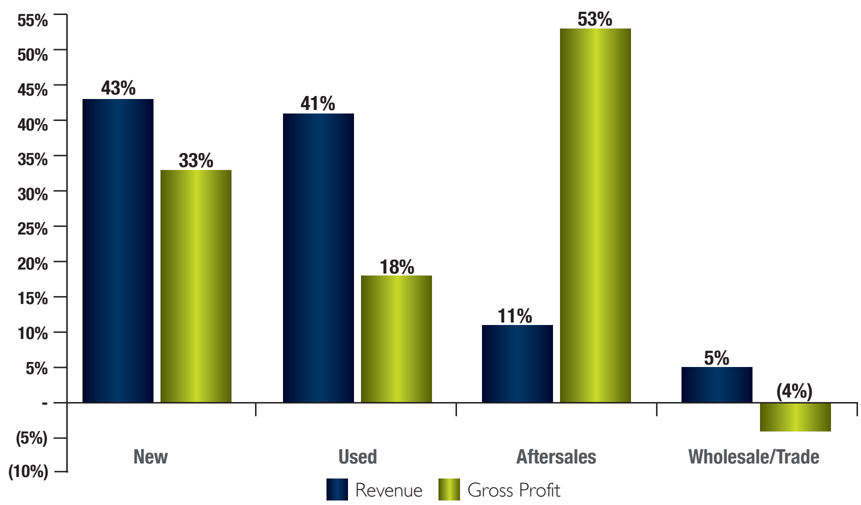
STRATSTONE

Our Stratstone brand is the UK's leading luxury motor car retailer with 133 franchise points. Each location sells new and used vehicles and undertakes after sales service and parts sales. Stratstone holds franchises to sell and service Aston Martin, BMW, Cadillac, Chrysler Jeep, Corvette, Dodge, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Porsche, Saab, Smart and Volvo. Stratstone also holds six motorcycle franchises.

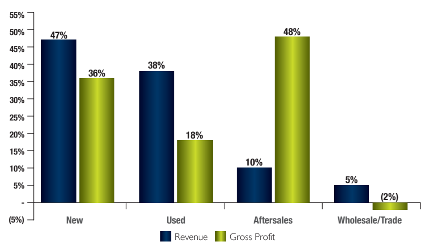
Nationally the market for new vehicle registrations for brands we represent in this luxury sector fell by 13.1%. The overall reduction disguises some big movements in individual brands. For example Jaguar was up 8.6% year on year, reflecting the impact of the new XF model. By contrast, Land Rover registrations were down 30.0% whilst BMW and Mercedes-Benz were down 6.9% and 9.0% respectively. In total our new car volumes were 24.6% down on 2007 on a like for like basis although our gross margins were 2.5% up on 2007. The used car market across all brands was very difficult, especially in the second half due to significant falls in wholesale prices. Like for like volumes were down by 0.2% on 2007 and gross margins down by 6.3% year on year. Our after sales activity continued to perform well and its proportion of Stratstone's total gross profit increased by 10%.

The split of activities within the Stratstone brand is detailed below to show the respective shares of revenue, gross profit and the gross margins achieved. PPU is the margin achieved on sales before overheads and includes income from finance and insurance products.

2008



2007



Gross Margin %	2008	2007
New	**10.0%**	9.7%
Used	**5.8%**	6.2%
Aftersales	**59.9%**	61.9%
Trade/Wholesale	**(9.1%)**	(3.3%)
Gross Margin (%)	**13.0%**	12.8%
New & Used Units ('000)	**54.9**	70.0
PPU (£)	**1,527**	1,803

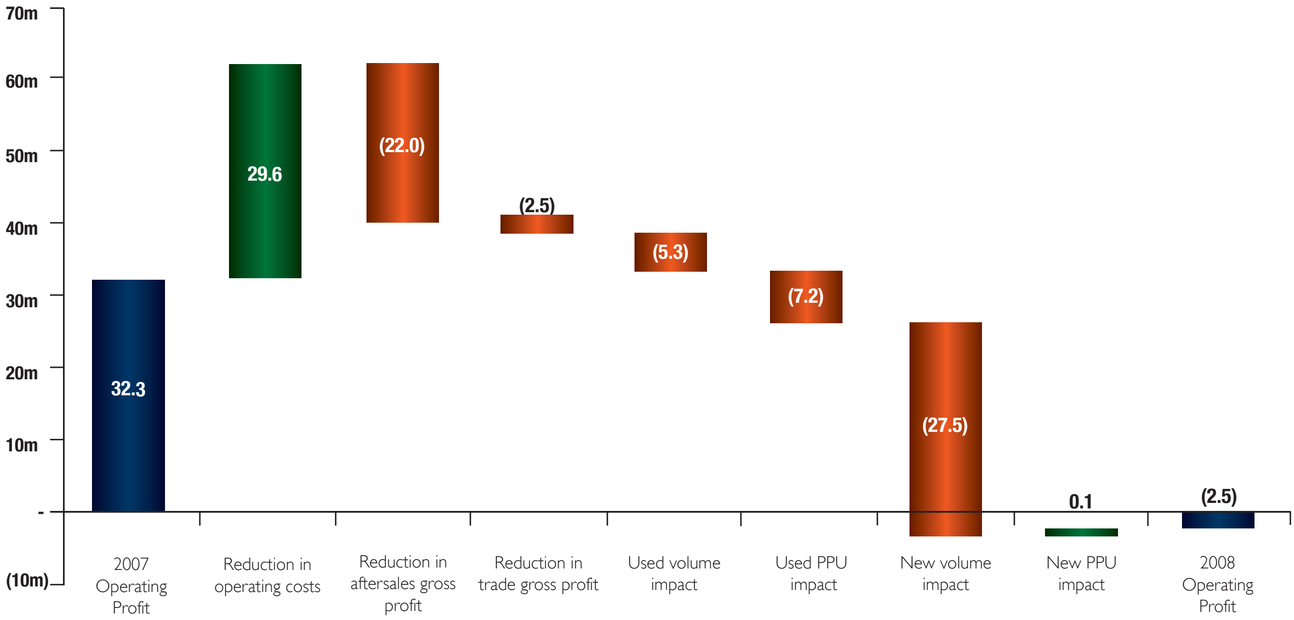
	Revenue £m	Gross Profit £m	Gross Margin %	Operating (Loss) / profit £m	Operating Margin %
Existing	1,336.7	175.4	13.1	(0.1)	0.0
Disposed	21.0	1.4	6.9	(2.4)	(11.3)
Total 2008	**1,357.7**	**176.8**	**13.0**	**(2.5)**	**(0.2)**
Total 2007	1,889.2	241.3	12.8	32.3	1.7

The relative proportion of gross profit generated by activity has changed in line with the market in 2008. A higher proportion of profits have been generated by the after sales function as it is less impacted by a downturn. "Trade" represents cars sent to auction which did not fit the Group's sales profile. Trade sales margins were down in line with the general market for used cars and increased losses were made partly as a consequence of the aggressive reduction of stock in the last quarter.

Revenue at our existing dealerships was down year on year by £335.1 million mainly due to a reduction in the volume of new cars sold. The gross margin was up due to after sales activity representing a larger proportion of total Stratstone gross profits than in 2007.

OPERATIONAL & BUSINESS REVIEW
Continued

Stratstone operating profit bridge



The impact of the reduction in volume of new cars sold was £27.5 million. Only our Jaguar brand contributed more unit sales this year than last. Land Rover was hardest hit with a unit sales reduction of 40.6% on 2007. However, manufacturer incentives meant that profit per unit for new cars was in line with the previous year. Used car volumes were down with a profit impact of £5.3 million and profit per unit was down significantly resulting in lower profits by £7.2 million. After sales revenues and profits for retail customers were marginally behind last year as consumers initially delayed the servicing of their vehicles at the height of the economic slowdown. Within the overall after sales performance retail service sales were marginally down, by 2%, which again demonstrates the resilience of our after sales business in periods of economic decline. The reductions in profits were mitigated by reducing the operating costs in the division by £29.6 million, principally consisting of lower advertising costs and fewer team members.

29 dealerships were closed or sold during the year and incurred operating losses of £2.4 million. This included seven Volvo dealerships, three BMW/MINI dealerships in the less profitable Home Counties area and other individual loss making dealerships.

OPERATIONAL & BUSINESS REVIEW

Continued

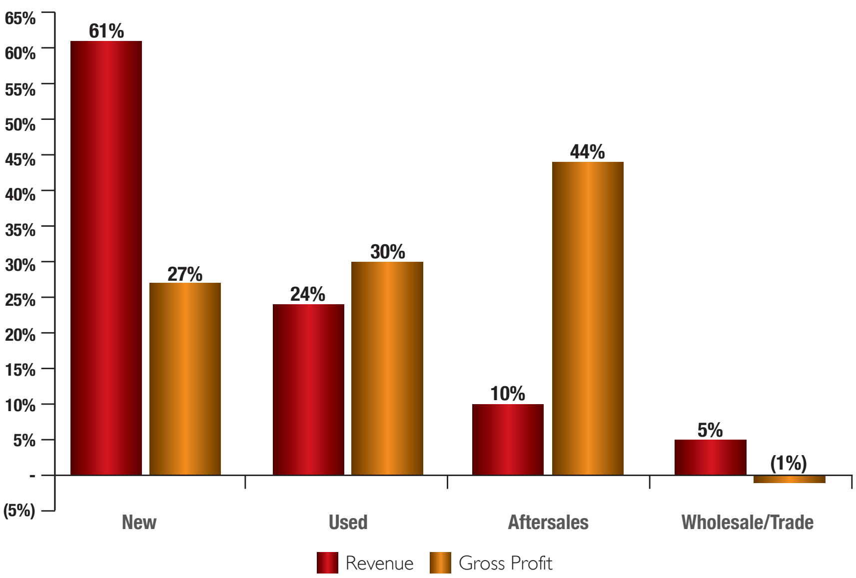
Evans Halshaw

EVANS HALSHAW

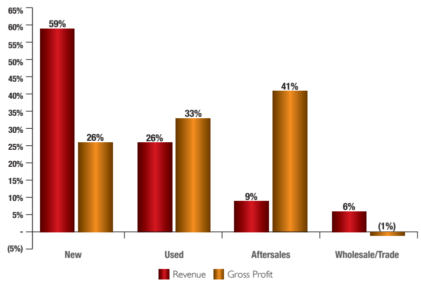
Our Evans Halshaw brand is the UK's leading volume motor car retailer, with 138 franchise points. Evans Halshaw holds franchises to sell and service Chevrolet, Citroen, Fiat, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall.

Nationally the market for new vehicle registrations for brands we represent in this volume sector fell by 11.9%. The overall reduction disguises some big movements in individual brands. For example Ford and Vauxhall were down 7.6% and 9.8% respectively whilst Renault was down by 29.4%. In total our new car volumes were 9.7% down on 2007 on a like for like basis and our gross margins were 4.5% down on 2007 on a like for like basis. The used car market across all brands was more competitive. Like for like volumes were down by 13.2% on 2007 and gross margins down by 9.0% year on year, reflecting the significant reduction in used car prices during 2008. After sales revenues and profits for retail customers were marginally behind last year as consumers initially delayed the servicing of their vehicles at the height of the economic slowdown.

2008



2007



Gross Margin %	2008	2007
New	**5.2%**	5.5%
Used	**14.1%**	15.6%
Aftersales	**53.1%**	55.9%
Trade/Wholesale	**(3.4%)**	(1.7%)
Gross Margin (%)	**11.6%**	12.4%
New & Used Units ('000)	**219.9**	254.6
PPU (£)	**664**	765

	Revenue £m	Gross Profit £m	Gross Margin %	Operating (Loss) / profit £m	Operating Margin %
Existing	2,246.6	260.5	11.6	6.7	0.3
Disposed	24.6	2.6	10.9	(0.6)	(2.2)
Total 2008	**2,271.2**	**263.1**	**11.6**	**6.1**	**0.3**
Total 2007	2,666.5	331.8	12.4	35.6	1.3

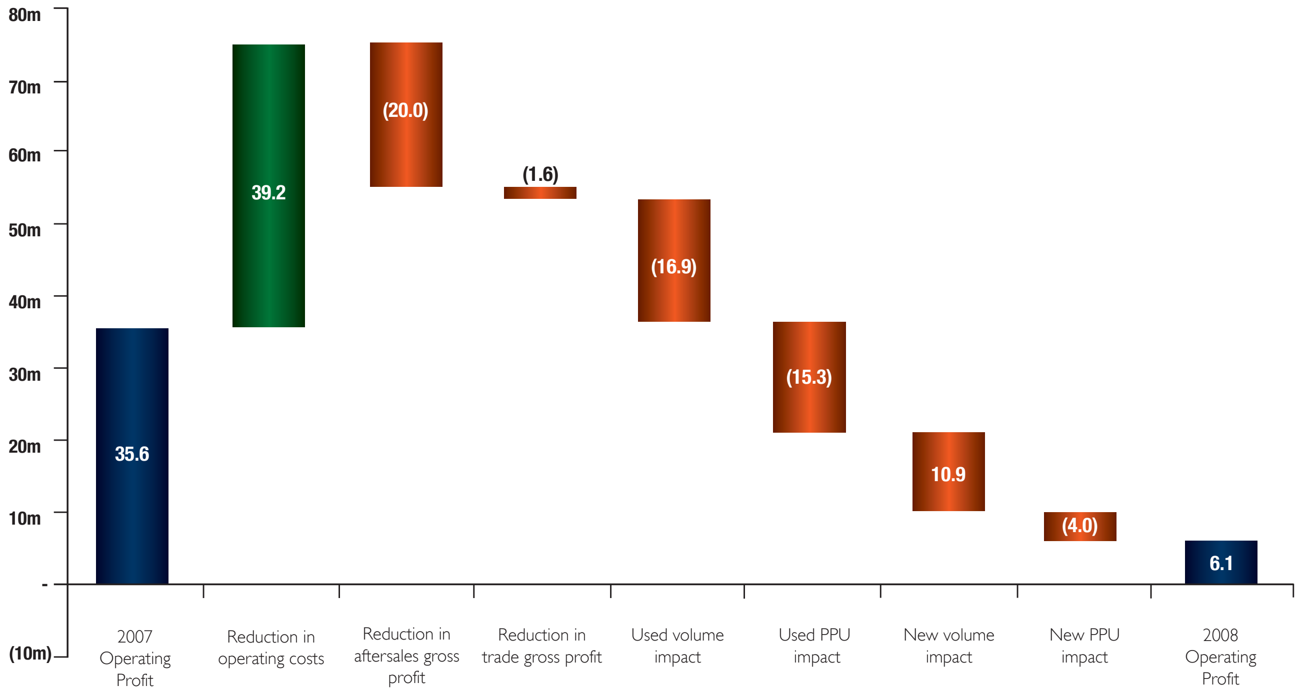
Difficult market conditions caused new and used margins to fall and increased the losses we suffered on trade cars, which represent cars sent to auction which do not fit the Group's sales profile.

After sales increased its proportion of the total gross profit and revenue. Motor vehicles are regularly serviced and repaired to ensure safety and performance standards and, importantly, to protect their resale value. After sales therefore plays an important role in mitigating the effect of the economic cycle.

Revenue at our existing dealerships was down year on year by £294.0 million, mainly due to a reduction in the volume of new cars sold. The gross margin was down primarily due to the impact of falling used car prices.

OPERATIONAL & BUSINESS REVIEW
Continued

Evans Halshaw operating profit bridge



The impact of the reduction in volume of new cars sold was £10.9 million. All our brands were impacted in line with the market. However, the market deterioration in our key Ford and Vauxhall franchises was less than in franchises such as Citroen and Renault. A reduction in profit per unit for new cars impacted profits by £4.0 million which is a relatively small amount due to incentives from manufacturers which helped maintain new car margins. Used car volumes were down with a profit impact of £16.9 million. Profit per unit was down significantly due to wholesale price reductions resulting in profits lower by £15.3 million.

After sales revenues and profits for retail customers were marginally behind last year as consumers initially delayed the servicing of their vehicles at the height of the economic slowdown. However, our retail service sales were marginally down by 3% on the prior year which illustrates the resilience of our after sales business in the economic slowdown. This was mitigated by a £1.6 million improvement in warranty service sales. Internal work fell as a result of lower used volumes, particularly in the second half of the year. The reductions in profits were mitigated by reducing the operating costs in the division by £39.2 million which consisted principally of lower advertising costs and fewer team members.

22 dealerships were closed during the year and incurred operating losses of £0.6 million. The closed dealers were largely in the non core franchises and other individual loss making dealerships.

OPERATIONAL & BUSINESS REVIEW

Continued

Chatfields

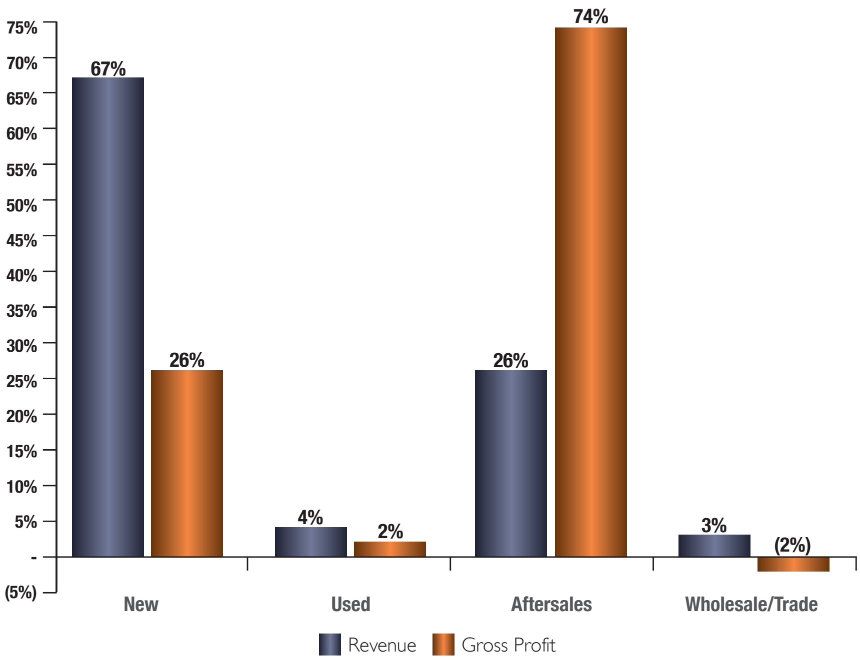
CHATFIELDS

Under our Chatfields brand we sell and service commercial vans and trucks in the UK with 21 franchise points. Chatfields holds franchises to sell and service Iveco, DAF and LDV.

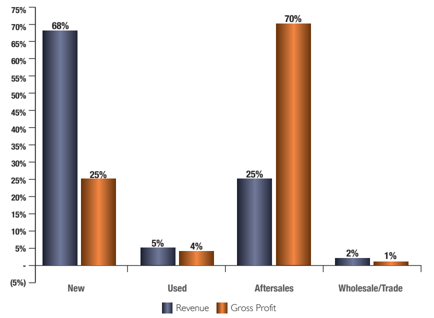
The market for new truck sales in 2008 was up by 13.1% overall whereas the van market was down by 14.3%. The van market has been affected by the economic downturn as customers defer purchases and the general economy slows.

Nearly three quarters of gross profits in this division are derived from the after sales activity. This tends to be a higher proportion than in the motor car divisions because of the shorter service intervals required for commercial vehicles and the operation of overnight servicing in many of the locations. Gross margins for new vehicles were in line with 2007 and used margins were significantly down.

2008



2007



Gross Margin %	2008	2007
New	**5.2%**	5.0%
Used	**5.6%**	9.5%
Aftersales	**38.4%**	38.3%
Trade/Wholesale	**(7.5%)**	5.8%
Gross Margin (%)	**13.7%**	13.5%
New & Used Units ('000)	**4.1**	5.2
PPU (£)	**1,497**	1,519

	Revenue £m	Gross Profit £m	Gross Margin %	Operating profit £m	Operating Margin %
Total 2008	**174.6**	**23.9**	**13.7**	**3.6**	**2.1**
Total 2007	195.5	26.4	13.5	5.0	2.6

The operating profit is down £1.4 million. This is mainly due to the reduction in new van volumes. The results for the trucks division have been satisfactory although the market for new and used trucks has weakened significantly and we expect it to remain subdued for the next 18 months. However, the after sales business is likely to continue to be resilient.

OPERATIONAL & BUSINESS REVIEW

Continued

Leasing

LEASING

In 2008 we consolidated the three separate brands of Pendragon Contracts, Bramall Contracts and Vardy Contract Motoring under the umbrella brand of Pendragon Contracts Limited. The leasing business offers a range of products and services mainly to the small corporate and fleet market for fleet sizes of up to 1,000 vehicles.

The fleet size reduced due to greater price competition within the contract hire sector in the second half of 2008. The impact of lower used car values in the latter stages of 2008 significantly reduced our underlying profits from vehicle disposals.

	Fleet Numbers '000	Revenue £m	Gross Profit £m	Gross Margin %	Operating profit £m	Operating Margin %
Total 2008	**15.5**	**39.6**	**11.2**	**28.4**	**8.7**	**21.9**
Total 2007	17.6	47.2	13.0	27.5	10.3	21.7

Quickco

QUICKCO

Under our Quickco brand we operate an independent genuine parts wholesale business serving wholesale and dealer customers throughout the UK. Quickco operates seven different manufacturer franchises, from ten depots across the country, with a fleet of 190 vans making in excess of 60,000 deliveries per month on a next day or same day basis.

Currently 70% of revenues come from Ford related business. In 2008 Ford rolled out a new distribution network for their OEM parts named 3D and this reduced the profit of the Quickco division in 2008. Looking forward, we have replaced an element of the lost Ford income by expanding our product range and have built on our other franchise relationships.

	Revenue £m	Gross Profit £m	Gross Margin %	Operating profit £m	Operating Margin %
Total 2008	**76.8**	**16.5**	**21.4**	**1.5**	**1.9**
Total 2007	81.1	20.2	24.9	5.4	6.6

Pinewood

PINEWOOD

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

The rollout of the Pinnacle DMS system into the Evans Halshaw and Stratstone dealers was completed early 2008. The proportion of Pinnacle DMS profit generated from Pendragon dealers has reduced to around 50% of total DMS revenues as sales to external dealers has continued to increase. At the end of 2008 Pinnacle systems were supplied to around 14% of UK franchised car dealerships.

	Revenue £m	Gross Profit £m	Gross Margin %	Operating profit £m	Operating Margin %
Total 2008	**25.9**	**15.9**	**61.4**	**7.0**	**27.0**
Total 2007	32.5	17.3	53.0	8.1	25.0

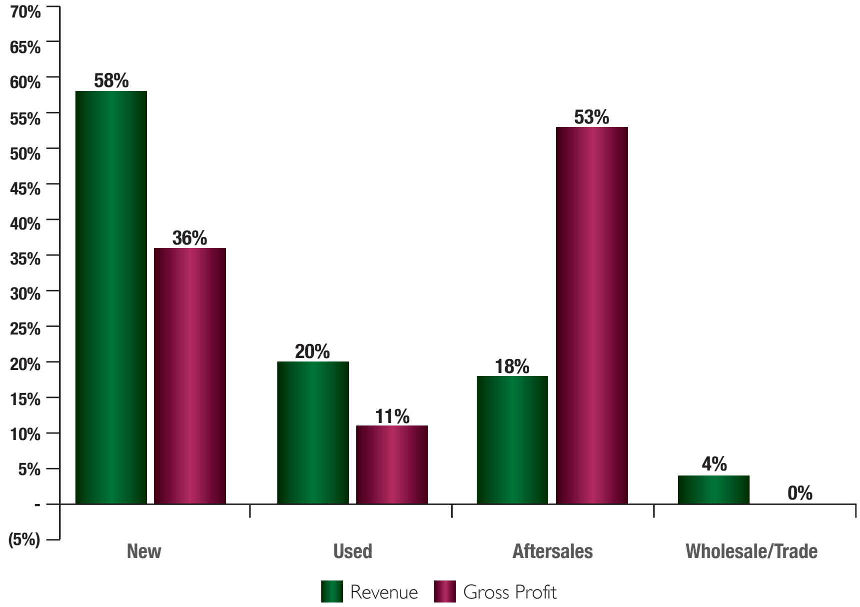
OPERATIONAL & BUSINESS REVIEW
Continued

California

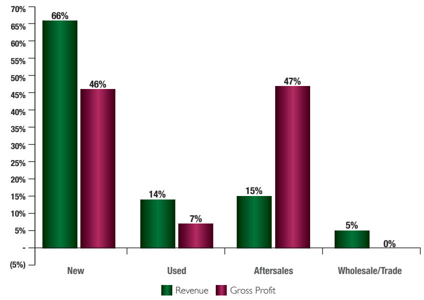
CALIFORNIA

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

2008



2007



Gross Margin %	2008	2007
New	**10.9%**	11.0%
Used	**10.1%**	7.5%
Aftersales	**52.8%**	51.1%
Trade/Wholesale	**(3.8%)**	(1.4%)
Gross Margin (%)	**17.5%**	16.0%
New & Used Units ('000)	**4.6**	6.0
PPU (£)	**2,670**	2,497

	Revenue £m	Gross Profit £m	Gross Margin %	Operating (Loss) / profit £m	Operating Margin %
Existing	147.0	25.8	17.6	1.6	1.1
Disposed	1.9	0.3	13.9	(0.2)	(10.7)
Total 2008	**148.9**	**26.1**	**17.5**	**1.4**	**1.0**
Total 2007	180.3	28.8	16.0	4.6	2.6

The reduction in revenue is attributed both to market conditions adversely affecting unit sales and to the reduced number of locations. In 2008, we sold our remaining Saab dealership in Santa Monica and we closed the loss making Saturn store.

The reduction in gross profit is the net effect of lower vehicle sales and the increase in after sales margins at Newport Beach following the completion of the development project in the summer of 2008. Our new car volumes have declined by 35% in the year although margins have been maintained as a result of the new Jaguar XF model. The business has also been disrupted during 2008 by the redevelopment of the Newport Beach dealership which brings the redevelopments to a close.

Shared services centre

SHARED SERVICES CENTRE

Our scale allows us to invest in information technology solutions and to use a shared services business model. The Group operates on the Pinnacle system which has been developed by Pinewood. Our shared services centre now has a team of 456, down by 24% on last year, reflecting the reduction in the level of activity in the Group overall. The costs of the centre are borne proportionately by the operating divisions.

OPERATIONAL & BUSINESS REVIEW

Continued

Property

PROPERTY

Our property portfolio is an important aspect of our business which we seek to utilise in the most cost effective manner. We operate from both leasehold and freehold properties. In addition, through strategic investment choices and the decision to close some dealerships, we have a number of vacant property assets which are held for sale. At the year end we held £175.0 million of properties on the balance sheet plus £37.3 million of properties held for sale.

Regarding our investment in our joint venture property company, we have written the value down from £6.2 million to £nil. This is as a consequence of falling property values and the joint venture company being in breach of its banking covenants. The structure is non recourse to the Group and therefore we have no obligations to the joint venture other than as tenants to pay the rents and as service provider, to manage the property portfolio.

In 2008 we disposed of eight properties which were operationally surplus to requirements. This resulted in proceeds of £13.3 million and losses of £6.1million, which includes write offs of leasehold improvements for which no proceeds were received. Given the rapid decline in the commercial property market, we have reviewed all of our property assets which are held for sale and we have decided to record an impairment charge of £11.9 million against these assets. We have sold one property for £1.9 million since the year end at approximately book value and currently have surplus properties under offer with estimated proceeds of £4.9 million and a book value of £3.7 million.

An impairment review has also been undertaken on our operational freehold property assets as part of the assessment of all fixed asset values. An impairment charge of £8.9 million has been recorded in this respect.

Cash flow

CASH FLOW

Our borrowings as at 31 December 2008 were £357.3 million compared to £332.0 million at the end of 2007 mainly due to the decrease in profitability of the Group. We reviewed our cash management processes during the year and initiated a wide range of debt management actions which are continuing in 2009. These have included new procedures on vehicle stock management, eliminating discretionary capital expenditure, more rigorous debt collection processes and a reduction in the amount of fleet business.

We have seen the impact of the "credit crunch" through changed behaviour from both our suppliers and customers as everybody tries to conserve cash. This has manifested itself in shorter credit terms offered to us and a need for us to consider risk more carefully when dealing on credit terms with customers.

The cash flows of the business are summarised as follows:

	2008 £m	2007 £m
Cash generated from operations	**53.6**	160.0
Net interest paid	**(64.1)**	(63.2)
Tax	**15.0**	(4.8)
Replacement capital expenditure	**(18.3)**	(59.7)
Free cash flow	**(13.8)**	32.3
Acquisitions	**(14.5)**	(34.2)
Disposals	**21.0**	68.8
Dividend	**(15.9)**	(25.4)
Other	**(2.1)**	(3.8)
(Increase) / reduction in net debt	**(25.3)**	37.7

Cash flow generated from operations was £53.6 million, which compares with £160.0 million generated in 2007. This is made up of two key components: operating profit and working capital movements. The operating profit element after adding back depreciation, intangible charges and property profits was £22.3 million, down £130.3 million from the £152.6 million in 2007. This includes the impact of a reduction in adjusted operating profit of £75.5 million and £52.8 million of non recurring costs in 2008 compared to £7.2 million in 2007. In respect of working capital there was a net reduction of £31.3 million in 2008, and this is stated after £19.0 million cash payments made to reduce the deficit in our pension schemes. In 2007 we reduced working capital by £7.4 million.

Net interest paid includes the benefit of £8.3 million interest received in connection with a VAT refund in relation to demonstrator vehicles which is treated as an exceptional, non recurring interest item in the income statement. The small increase in underlying net interest charge reflects the impact of the slightly higher borrowing levels during the year.

Replacement capital expenditure was £18.3 million which includes plant and machinery, fixtures and fittings and motor vehicles (2007: £59.7 million). Expenditure on plant and machinery and fixtures and fittings was £2.5 million (2007: £15.8 million). The balance of the expenditure of £15.8 million (2007: £43.9 million) is in respect of motor vehicles used either for our contract hire fleet or for service loan cars for our customers.

Refunds of taxation payments made in advance in previous periods were £15.0 million in comparison to taxation payments made in 2007 of £4.8 million.

Business disposals raised £7.7 million in 2008 (2007: £20.6 million), which related to the sale of five dealerships and the Extra Leasing business. Surplus property disposals raised £13.3 million (2007: £48.2 million).

OPERATIONAL & BUSINESS REVIEW
Continued

Year end financing

YEAR END FINANCING

As part of our cost reduction programme in 2008 we targeted the reduction of vehicle stocks during the second half of the year to reduce holding costs and trade losses. We were very successful in reducing used car stock and vehicles registered for our own use which generally speaking is not funded by manufacturer related finance companies. This category of stock was reduced by £102 million in the second half of the year. New vehicle stocks are traditionally harder to control as stock levels are often linked to manufacturer sales targets. Last year order commitments were made well in advance of the serious downturn in the market in the second half with the consequence that overall new car stock held by the Group increased in the second half. Actions in conjunction with vehicle manufacturers have been taken during the second half of 2008 and are continuing in 2009 to address the overall new stock position.

When considering vehicle stocks from a funding risk view point we split the funding into that which is funded by the manufacturer through their related finance arm and that funded by ourselves through stock finance facilities and bank borrowings. Financing for stock other than through bank borrowings is shown in trade creditors in the balance sheet. The breakdown of funding at the year end was as follows:

	2008 £m	2007 £m
Stock finance	**134.1**	246.0
Bank	**349.4**	322.3
Non manufacturer funding	**483.5**	**568.3**
Manufacturer finance arm	**486.4**	413.7
Total funding	**969.9**	**982.0**

Our current non manufacturer stock finance facility is from Lombard. 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. Although stock financed by the manufacturers' finance arms has increased during the year as a consequence of falling demand and continuing supply prior to manufacturers reducing production, we are now seeing manufacturer financed stocks reducing as supply is constrained.

New borrowing facilities

NEW BORROWING FACILITIES

Over the last six months we have undertaken a rigorous review of the financing structure of the business and considered disposals of assets such as our Pinewood software company, a share placing or rights issue and a restructuring of our debt facilities. The purpose of the review was to ensure that the Group's financing structure is appropriate during a period when we expect the economic environment for trading to be difficult. We have put in place a new three year debt facility. In the light of this the Group has decided that an equity issue is not necessary.

We have successfully negotiated a new £530 million three year borrowing facility, providing us with much improved headroom on covenants and extending our refinancing timescale. The new arrangements comprise a revolving facility of £210 million repayable in three years and a term facility which is currently £210 million and amortises by £20 million in June and December each year with the balance remaining repayable in three years. We have also changed the maturity profile on our £110 million of loan notes to mature in April 2012. As expected, in order to secure this new financing deal we have had to pay considerably more in fees and increased margin than before the "credit crunch".

The new facility has three financial covenants with which the Group must comply that provide sufficient headroom and flexibility for the next three years. The first is the ratio of net debt to EBITDA and the second is fixed charge cover being the ratio of interest and rent cost to EBITDA excluding rent costs. These two are tested at June and December each year and have been set on a ratchet basis to reflect improvements in profitability and debt pay down. The third covenant is EBITDA which has been set against our downside profit projections over the next three years and is tested quarterly. The covenants are calculated after making adjustments for stocking interest and overseas businesses, certain non cash items and other adjustments to our EBITDA figure such as excluding certain fees on the new facilities. We have also negotiated new bank facilities for our overseas businesses in an amount of approximately £36 million.

OPERATIONAL & BUSINESS REVIEW
Continued

Pensions

PENSIONS

The Group operates six final salary pension schemes which are all closed for future accruals. The schemes' deficit increased during 2008 due to a reduction in the fair value of scheme assets, mainly as a result of falling equity prices. As part of the refinancing of the Group we have agreed to allow the pension trusts to participate in the security offered to the other lenders to the Group. We sought and were given clearance by the Pension Regulator for the arrangements entered into with the lenders and the Pension Trustees. Contributions to the schemes will be at a reduced level for a period of twelve months and then revert to previous levels which were £19 million per annum.

VAT

VAT

In common with other companies in the industry, the Group is in discussion with HM Revenue and Customs over a number of issues arising from recent developments in case law, the treatment of partial exemption within our finance and insurance operations and the VAT treatment of sales of vehicles to certain disabled customers. Additional amounts of VAT receivable and payable may be recognised in future periods in relation to these outstanding matters, and although these amounts, if any, could potentially be significant, it is difficult at present to quantify them. However, in light of the uncertainty surrounding possible future payments we have decided to make a provision of £26.8 million which is shown under non recurring items in this year's accounts.

Outlook

OUTLOOK

In 2008 we continued with our cost reduction programme which we embarked upon in 2007. This has yielded over £60 million of savings annually and we have closed loss making dealerships. We have put in place new loan facilities to take us through to 2012. We anticipate a stabilisation in the used car market this year which is a key area for us going forward. We expect the new car market to remain subdued for the next 12 months and then we believe a gradual improvement will be seen. We have taken actions which give us confidence that we will improve the performance of the Group in 2009 despite the difficult markets anticipated. The Group is now well placed to take advantage of markets when they recover and is currently trading is in line with our expectations.

TREVOR FINN
CHIEF EXECUTIVE
30 APRIL 2009

DIRECTORS AND ADVISORS

Sir Nigel Rudd (62)
Non-executive Chairman (N) (R)*
Appointed non-executive chairman of Pendragon in October 1989. He is chairman of BAA Limited, deputy chairman and chairman designate of Invensys Plc and a non-executive director of BAE Systems PLC and Sappi Limited. Sir Nigel chairs the Company's Nomination Committee.

John Holt (69)
Non-executive Director (A) (N) (R)†
Joined Pendragon in November 1999. He was previously head of Coopers & Lybrand's (now PricewaterhouseCoopers) computer assurance practice in the North of England. Mr Holt is the senior non-executive director and chairman of the Audit Committee.

Mike Davies (61)
Non-executive Director (A) (N) (R)
Joined Pendragon in October 2004. Mr Davies is non-executive chairman of the Royal Mint, Marshalls PLC and Manchester Airports Group PLC as well as a non-executive director of Taylor Wimpey PLC. He is the chairman of the Remuneration Committee.

David Joyce (61)
Non-executive Director (A) (N) (R)*
Joined Pendragon on 1 March 2006. He is a civil engineer and chief operating officer of Vinci PLC (formerly Norwest Holst Group PLC).

Malcolm Le May (51)
Non-executive Director (A) (N) (R)
Joined Pendragon on 1 March 2006. Mr Le May is also a non-executive director of Royal & Sun Alliance Insurance Group Plc.

Trevor Finn (51)
Chief Executive
Joined the vehicle division of Williams PLC in 1982 and subsequently became divisional managing director. He was appointed chief executive of Pendragon prior to the demerger from Williams.

Martin Casha (49)
Chief Operating Officer
Joined the vehicle division of Williams PLC in 1982 and subsequently became a group general manager. He was appointed operations director of Pendragon in September 1995 and chief operating officer in November 2001.

David Forsyth (53)
Finance Director
Joined Pendragon in October 1997 from Lonrho PLC where, since 1986, he held a number of senior finance positions. He is a chartered accountant.

Hilary Sykes (48)
Corporate Services Director
Hilary Sykes is a solicitor and prior to joining Pendragon, advised the company as a corporate lawyer with Geldards LLP. She joined Pendragon in 1994 as company secretary and became a director in April 1999.

(A) Member of the Audit Committee
(N) Member of the Nomination Committee
(R) Member of the Remuneration Committee
† retires annually at the AGM, proposed for re-election
* retiring by rotation at the AGM, proposed for re-election

Secretary
Hilary Sykes

Registered Office
Loxley House, 2 Oakwood Court, Little Oak Drive
Annesley, Nottingham NG15 0DR
Telephone 01623 725000
Facsimile 01623 725015

Registered number
2304195

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

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

Stockbrokers
Arden Partners Plc
Citigroup Global Markets Limited

Auditors
KPMG Audit Plc

Solicitors
CMS Cameron McKenna LLP
Geldards LLP
Osborne Clarke LLP

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Results and dividends

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the financial statements on pages 42 to 94. An interim dividend of 0.5 pence per share was paid to shareholders on 3 October 2008. The current intention of the Board is to use its free cash flow to reduce the Group's indebtedness, and therefore the Board does not intend to pay any dividends in the near term, including the final dividend for the year ended 31 December 2008. The total dividend for the year was 0.5 pence per share. The Board's intention is to focus on conservation of cash and reduction of borrowings. Accordingly, we do not intend to pay any dividends during 2009. Total dividends amount to £15.9 million, leaving a retained loss for the year of £176.0 million. Movements in reserves are set out in note 21 to the financial statements.

Review of operations

REVIEW OF OPERATIONS

A detailed review of the Group's activities and future developments is presented in the Operational and Business Review on pages 2 to 15. The following businesses were disposed of during the year ended 31 December 2008:

Business	Location	Franchise	Date 2008
Evans Halshaw	Dorchester	Ford	January
Evans Halshaw	Poole	Ford	February
Evans Halshaw	Reading	Ford	March
Extra Leasing	Derby	Contract hire	June
Stratstone	Tring	BMW	July
Stratstone	Milton Keynes	BMW	September

During the course of 2008, dealerships which were determined to be uneconomical were closed, sold or the location refranchised. The following table summarises dealership closures by franchise during 2008:

Franchise	Closures	Franchise	Closures
BMW	3	Lotus	1
Cadillac/Corvette	3	Mini	3
Citroen	1	Peugeot	1
Ferrari/Maserati	2	Renault	4
Fiat	2	SAAB	2
Ford	6	Saturn	1
Hyundai	2	Suzuki	1
Jaguar	2	Vauxhall	1
Jeep/Dodge	4	Volvo	7
Kia	5	Total	53
Land Rover	2		

Business review

BUSINESS REVIEW

Certain information required by the Companies Act 2006 to be included in the Directors' Report is contained in the Operational and Business Review Report on pages 2 to 15. The Operational and Business Review principally covers the development and performance of the business and the external environment. Other requisite disclosures are contained within the Directors' Report, which includes the principal risks and uncertainties affecting the business and corporate social responsibility issues. The Company has not disclosed certain specific non financial Key Performance Indicators in the absence of relevant measures that have been monitored consistently over the past three years.

Principal risks and uncertainties

PRINCIPAL RISKS AND UNCERTAINTIES

We have set out below certain risk factors that we believe could cause our actual future Group results to differ materially from expected results. However, other factors could also adversely affect the Group results. Accordingly, the factors set out below are not intended to represent an exhaustive list of all potential risks and uncertainties. The risk factors outlined should be considered in connection with the statement on internal control and risk management in the Corporate Governance Report on pages 24 to 29. Health and safety is addressed within the Corporate Social Responsibility Report on pages 30 to 31.

REPORT OF THE DIRECTORS

Continued

Business conditions

BUSINESS CONDITIONS

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

Profitability can be significantly affected by the level of new vehicle production

PROFITABILITY

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

Vehicle manufacturer dependencies

VEHICLE MANUFACTURER DEPENDENCIES

We depend on the vehicle manufacturers' financial condition, marketing, vehicle design, production and distribution capabilities, reputation, management and industrial relations. Although we do not depend on any single vehicle manufacturer, a failure by a manufacturer in the areas noted could lead to significant losses especially in the case of the insolvency of a manufacturer. Vehicle manufacturers provide sales incentive, warranty and other programmes that are intended to promote new vehicle sales. A withdrawal or reduction in these programmes would have an adverse impact on our business.

Changes to manufacturers' incentive programmes

CHANGES TO MANUFACTURERS' INCENTIVE PROGRAMMES

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

Used car prices, and therefore profit margins, can decline significantly

USED CAR PRICES

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

Franchise agreements

FRANCHISE AGREEMENTS

We operate franchised motor vehicle dealerships. Franchises are awarded to us by the vehicle manufacturers. Failure to continue to hold franchises could result in a significant reduction in the profits of the Group as this would end its rights to source new vehicle stock directly to sell, to perform warranty repairs and display vehicle manufacturer trade marks.

Liquidity and financing

LIQUIDITY AND FINANCING

Liquidity and financing risks relate to our ability to pay for goods and services required by the Group to trade on a day to day basis. We have two main sources of financing facilities: (i) from banks by way of committed borrowing facilities; and (ii) from suppliers by way of trade credit. A withdrawal of financing facilities or a failure to renew them as they expire could lead to a significant reduction in the trading ability of the Group.

Regulatory compliance risk

REGULATORY COMPLIANCE RISK

The Group is subject to regulatory compliance risk which can arise from a failure to comply fully with the applicable laws, regulations or codes. Non-compliance can lead to fines, cessation of certain business activities or public reprimand.

REPORT OF THE DIRECTORS

Continued

Competition

COMPETITION

We compete with other franchised vehicle dealerships, private buyers and sellers, internet based dealers, independent service and repair shops and vehicle manufacturers who have entered the retail market. We compete for the sale of new and used vehicles, the performance of warranty repairs, non warranty repairs, routine maintenance business and for the provision of spare parts. The principal competitive factors in service and parts sales are price, utilisation of customer databases, familiarity with a manufacturer's brands and models and the quality of customer service. We also compete with a range of financial institutions in arranging finance for vehicle purchases. Some of our competitors may have greater resources and lower overhead and sales costs. This could lead to our failure to be able to compete and result in a reduction in our profitability.

Reliance on certain members of management and staff

RELIANCE ON CERTAIN MEMBERS OF MANAGEMENT AND STAFF

The Group is dependent on members of its senior management team and skilled personnel and the future financial well-being of the Group could depend in part on our ability to attract and retain highly skilled management and personnel. The loss of the service of a number of such individuals could have a material adverse effect on the business. Additionally, if we fail to recruit and retain skilled staff it may not be possible to continue to grow the Group's businesses.

Failure of information systems

FAILURE OF INFORMATION SYSTEMS

Our businesses are dependent on the efficient and uninterrupted operation of our information technology and computer systems, which are vulnerable to damage or interruption from power loss, telecommunications failure, sabotage, vandalism or similar misconduct. Whilst we have put in place contingency and recovery plans in order to mitigate the impact of such failures it can never be certain that these plans could cover every eventuality or situation.

Reliance on the use of significant estimates

RELIANCE ON THE USE OF SIGNIFICANT ESTIMATES

The Company exercises judgement over certain critical accounting matters in respect of goodwill impairment, intangible assets, consignment inventories, repurchase commitments, employee post-retirement benefit obligations, deferred tax and income tax. Any significant variance in these accounting judgements could be material to the financial position of the Group.

Legislative changes in relation to the distribution and sales of vehicles

LEGISLATIVE CHANGES

Legislative changes in relation to the distribution and sales of vehicles could have a material impact on the operations and financial performance of the Group. Pursuant to the Motor Vehicle Block Exemption Regulation (Commission Regulation EC 1400/2002) ("MVBER") , franchise agreements in the motor vehicle franchise sector are regulated by a specific EU competition law regime. The MVBER permits the suspension of the usual competition rules in order to allow efficient, well-equipped pan-European networks of specialised distributors and repairers to be set up. Such a suspension is justified by the relatively high value and technical complexity of a motor vehicle. Any modification of the MVBER could potentially have an adverse effect on the Group's business operations. In 2010 the MVBER expires, and it is not yet clear whether it will be renewed (in its current, or a modified form) or whether motor distribution and repair will be brought under the parallel regime covering agreements for distributions of all types of goods and services, known as the Vertical Agreements Block Exemption Regulation (Commission Regulation EC 2790/1999), a simplification which the EC has consistently worked towards. The final position is unlikely to be known until Autumn 2009.

Directors

DIRECTORS

The directors of the Company are listed on page 16. Details of the terms of appointment and notice period of each of the current directors, together with their respective interests in the Company's shares, appear in the Remuneration Report on pages 32 to 39. The Combined Code and the Company's Articles of Association require directors to retire by rotation or, in the case of directors who have served more than nine years, annually. The circular to shareholders describes the business of the Annual General Meeting and includes details of the directors proposed for election or re-election. Following the performance evaluation of individual directors, the Board has confirmed that the non-executive directors standing for re-election at this year's AGM continue to perform effectively and demonstrate commitment to their roles. The directors in question are: Sir Nigel Rudd, Mr J H Holt and Mr D A L Joyce, each of whom, being eligible, will stand for re-election. Each of the non-executive directors, Sir Nigel Rudd, Mr J H Holt, Mr D A L Joyce, Mr M T Davies and Mr M J Le May considers that he has sufficient time to commit to the Company's affairs notwithstanding his other business commitments, and has no conflicting interests.

At no time during the year did any of the directors have an interest in any contract with the Group. The interests of the directors in the share capital of the Company, other than with respect to options to acquire ordinary shares (which are detailed in the Directors' Remuneration Report) were as follows:-

REPORT OF THE DIRECTORS
Continued

Directors (continued)

DIRECTORS

Ordinary Shares of 5 pence each	Nature of holding	31 December 2008 Shares	31 December 2007 Shares
T G Finn	Beneficial	17,384,496	16,514,996
Sir Nigel Rudd	Beneficial	11,000,000	11,000,000
M S Casha	Beneficial	5,101,972	5,101,972
D R Forsyth	Beneficial	1,865,439	1,865,439
H C Sykes	Beneficial	1,844,662	1,844,662
M T Davies	Beneficial	150,000	150,000
J H Holt	Beneficial	125,000	125,000
D A L Joyce	Beneficial	50,000	50,000
M J Le May	Beneficial	19,000	19,000

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

There were no changes to the directors' interests shown between 31 December 2008 and the date of this report.

Appointment and replacement of the Company's directors

APPOINTMENT AND REPLACEMENT

The rules for the appointment and replacement of the Company's directors are detailed in the company's Articles of Association. Directors are appointed by ordinary resolution at a general meeting of holders of ordinary shares or by the Board either to fill a vacancy or as an addition to the existing Board. The appointment of non-executive directors is on the recommendation of the Nomination Committee; the procedure is detailed in the Corporate Governance Report on page 26.

Powers of the Company's directors

POWERS OF THE COMPANY'S DIRECTORS

Subject to the Company's Memorandum and 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, 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 passed at its Annual 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

DIRECTORS' INDEMNITIES

The Company's Articles of Association permit the Board to grant the directors indemnities in relation to their duties as directors in respect of liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the Company. In line with market practice, each director has the benefit of a deed of indemnity which includes provisions in relation to duties as directors of an associated company, qualifying third party indemnity provisions and protection against derivative actions.

Compensation for loss of office

COMPENSATION FOR LOSS OF OFFICE

In the event of an executive director's employment with the Company being terminated as a result of a take-over offer or otherwise 50% or more of the Company's issued share capital being acquired, he is entitled to receive from the Company a sum equivalent to 0.75 times his salary which applied immediately before the take-over event, 0.75 times his available bonus and a sum equal to that proportion of the available bonus which the expired part of the measurement period for annual bonus bears to the whole of such measurement period.

In the event of a non-executive director's employment with the Company being terminated as a result of a take-over offer or otherwise 50% or more of the Company's issued share capital being acquired, he is entitled to one times his annual director's fees at the rate prevailing immediately before the take-over event. In addition, where a non-executive director has elected to receive part of his fee in the form of vehicle provision, he will be entitled to receive one times the annual cost of the provision and one times the annual cost of the insurance and road tax for such vehicle provision in the event of a take-over.

REPORT OF THE DIRECTORS
Continued

Significant direct or indirect shareholdings

SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 1 April 2009 the directors had been advised of the following interests in the shares of the Company:-

Shareholder	Shares	%
Trefick Limited	81,433,290	12.41
Schroder Investment Management	73,910,534	11.27
JP Morgan Chase Bank	58,005,855	8.84
HSBC	53,837,724	8.21
AXA Investment Managers UK Limited	31,038,250	4.73
Barclays PLC	25,700,590	3.92
Fidelity International Limited	24,202,040	3.69

Share capital

SHARE CAPITAL

As at 31 December 2008, the issued share capital of the Company comprised a single class of share capital which is divided into ordinary shares of 5 pence each. Details of the share capital of the Company are set out in note 20 to the accounts on page 81. The Company issued no shares during the period under review. The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary.

Rights and obligations attaching to shares

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

Subject to applicable statutes and other shareholders rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or, if no resolution has been passed or so far as the resolution does not make specific provision, as the Board (as defined in the Articles) may decide.

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies (and, if they are corporations, corporate representatives) and to exercise voting rights. Holders of ordinary shares are entitled to receive a dividend. Ordinary shareholders are entitled to receive a copy of the Company's annual report and accounts. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or the proposal of resolutions at Annual General Meetings.

Voting rights, restrictions on voting rights and deadlines for voting rights

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) and the Company's auditors have the right to receive notice of, and to attend and in the case of shareholders 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 5p 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 at the vote on their behalf at a general meeting. Further details regarding voting at the Annual General Meeting 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' on page 22. None of the ordinary shares, including those held by the Employee Benefit Trust, carry any special voting rights with regard to control of the Company.

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

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

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

REPORT OF THE DIRECTORS

Continued

Repurchase of shares

REPURCHASE OF SHARES

Details of movements in the Company's share capital are given in note 20 to the financial statements. The Company has not repurchased any of its own shares during the year. The authority to purchase the Company's own shares is exercised only if the directors expect it to result in an increase in earnings per share.

Team member sharesave scheme

TEAM MEMBER SHARESAVE SCHEME

The Company continues to encourage employee share ownership through the provision of a save as you earn (SAYE) scheme, administered by the Yorkshire Building Society (the "Pendragon 1998 Sharesave Scheme"). The SAYE Scheme was renewed at the 2008 AGM. As at 31 December 2008, 703 team members, representing 6.48% of total team members participated in the scheme. Share options are exercisable by participant team members upon expiry of either a 3, 5 or 7 year savings contract, at a pre-determined option price. Full details of options remaining under this scheme can be found in note 28 to the financial statements on page 84.

Shares held by the Pendragon Employee Benefit Trust

SHARES HELD BY THE PENDRAGON EMPLOYEE BENEFIT TRUST

The Company established an Employee Benefit Trust in June 1999 with Investec Trust (Guernsey) Limited. As at the 31 December 2008, the trustee held 19,844,141 shares, representing 3.02% of the total issued share capital at that date, which are used to satisfy options under the Pendragon 1999 Approved Executive Share Option Scheme, the Pendragon 1999 Unapproved Executive Share Option Scheme and the Pendragon 1998 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, 836,335 shares with a nominal value of £41,816.75 were transferred to beneficiaries of the Sharesave Scheme, the 1999 Approved Executive Share Option Scheme and the 1999 Unapproved Share Option Scheme by the trustees of the Employee Benefit Trust.

Articles of Association

ARTICLES OF ASSOCIATION

The Company's existing Articles of Association were adopted by special resolution at the Annual General Meeting held on 25 April 2008. These new Articles of Association included a provision allowing general meetings of the Company to be called on the minimum notice period provided for in the Companies Act 2006. For meetings other than an AGM this is currently a period of 14 days. The Companies Act 2006 provisions relating to meetings are due to be amended with effect from August 2009, as a result of the implementation of the EU Shareholder Rights Directive. The Board believes that it should ensure that the minimum period for notice of meetings of the Company can remain at 14 days after August 2009, and a special resolution will be put to shareholders to approve 14 days as the minimum period of notice for all general meetings of the Company other than AGMs. Full details of this resolution are contained in the circular to shareholders.

Significant agreements

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 the applicable EC Regulation 1400/2002 (commonly known as the motor vehicle Block Exemption). In the event of a change of control, a vehicle manufacturer is unable to terminate either the franchise agreements or authorised repairer agreements held by the Group if 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, 8 February 2006, 14 February 2006 and 17 February 2006, an amendment and restatement agreement dated 8 March 2006 and an override agreement dated 30 April 2009 between the Company and its subsidiaries and the Royal Bank of Scotland plc and others under which the Royal Bank of Scotland agreed to make available term and revolving facilities to Pendragon up to an aggregate sum of £530 million – in the event of a change of control, the lenders under this facility are able to cancel the facility and declare all outstanding together with all accrued interest, commission and other amounts immediately due and payable.

- A Loan Note Purchase Agreement dated 25 February 2004 in relation to US $110,000,000 5.65% Guaranteed Senior Loan Notes Series A due in April 2012 and US $67,000,000 5.95% Guaranteed Senior Loan Notes Series B due in April 2012 subsequently amended and supplemented by an override agreement dated 30 April 2009. In the event of a change of control, the Company must offer to prepay all outstanding loan notes no more than 90 days and not less than 50 days from the date of the change of control event.

REPORT OF THE DIRECTORS
Continued

Corporate social responsibility

CORPORATE SOCIAL RESPONSIBILITY

The Company's approach to corporate social responsibility is set out on pages 30 to 31. No political donations were made (2007: £ nil) and the Company does not intend the Company or any member of the group to make any such donations.

Payments to suppliers

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 2008 was 61 days (2007: 59 days). The Company had no trade creditors.

Auditors

AUDITORS

KPMG Audit Plc has indicated its willingness to continue as independent auditor and a resolution concerning its reappointment will be proposed at the Annual General Meeting.

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

By order of the Board
H C Sykes
Secretary
30 April 2009

CORPORATE GOVERNANCE REPORT

Compliance

COMPLIANCE

Pendragon PLC is committed to maintaining high standards of corporate governance, in line with the UK Listing Authority listing rules and its Board supports the principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council ("the Code"). This statement, together with the Remuneration Report, on pages 32 to 39 below, explains how the Company has applied the principles and complied with the provisions of the Code. The Board regularly reviews corporate governance matters, taking into account both guidance issued by bodies representing institutional shareholders and individual institutional shareholders' policies and feedback, together with appropriate best practice. The Company has complied with the Code throughout the year.

Directors

DIRECTORS

The Company and its Group is managed by its board of directors ("the Board"). The Board is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. Through the Company's divisional structure, the Board reviews the strategic direction of individual trading businesses, their annual budgets and their progress towards achievement of those budgets. The Board also takes charge of the Company's standards in matters of corporate governance and policy matters affecting the Company's stakeholders. The Board has overall responsibility for the Group's system of internal control, including financial control and risk management and the Group's record on matters of health and safety and environmental compliance. It is also responsible for approving appointments to the Board and of the company secretary and approving policies relating to directors' remuneration and severance. All matters of an operational nature and within the executive directors' capital expenditure authority are dealt with by the executive directors. Certain of the Board's duties are delegated to committees of the Board, whose responsibilities and composition are set out on pages 26 to 27 of this Report.

There is a clear separation of the functions of chairman and chief executive, recorded in a written statement reviewed annually by the Board and published on the Pendragon PLC website. This statement is also available for shareholders' inspection at the Annual General Meeting and at any time from the company secretary upon request.

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. Between meetings, information packs containing key performance data are circulated to directors. The chairman holds meetings with the non-executive directors without the executives present when he deems it appropriate. In addition to formal meetings of the Board, informal meetings to familiarise with particular operations or address strategic matters are held as dictated by the requirements of the Company's business and any new developments. The attendance of directors at meetings of the Board and (where applicable) its committees during the year is set out in the table below.

Director	Board	Audit	Remuneration	Total
Sir Nigel Rudd (N, R)	11/12	n/a	4/5	15/17
J H Holt (A, N, R)	11/12	5/5	5/5	21/22
M T Davies (A, N, R)	11/12	5/5	5/5	21/22
D A L Joyce (A, N, R)	12/12	5/5	5/5	22/22
M J Le May (A, N, R)	10/12	4/5	5/5	19/22
T G Finn	12/12	n/a	n/a	12/12
M S Casha	9/12	n/a	n/a	9/12
D R Forsyth	12/12	n/a	n/a	12/12
H C Sykes	12/12	n/a	n/a	12/12

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

The Nomination Committee did not meet during the year.

* Attendance is displayed showing the number of meetings attended out of the total directors were eligible to attend e.g. 22/22 means 22 out of the 22 meetings held were attended.

The names, brief biographical details and committee appointments of each of the directors appear on page 16. The Company has not identified any individual as deputy chairman. 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 during the year. Directors have the opportunity at each meeting of the Board, and informally between meetings, to raise any concerns they may have regarding the way the Company is being run or any proposed course of action. Any such concerns, if voiced at a meeting of the Board or any of its committees, would be recorded in the minutes. No such concerns have been raised during the year.

The Company supports the principles of the Code regarding board balance and the ability of board members to bring to bear an independent judgement on the matters put before them. For 2008, the Board comprised four executive directors and four non-executive directors, all of whom are considered by the Code to be independent, and the chairman. Each of the Audit and Remuneration Committees is composed entirely of non-executive directors treated by the Code as independent.

CORPORATE GOVERNANCE REPORT

Continued

Independence

In the view of the Board, every non-executive director serving during the year has demonstrated the required degree of independence, both in character and judgement, taking into account all the relevant circumstances. At least half the Board, excluding the chairman, consists of non-executive directors determined by the Board to be independent. Due to the rebuttable presumption in the Code that a director who has served on the Board for more than nine years is not independent, Mr J H Holt would not, due to his long service, be treated by the Code as independent, unless the Company was able to rebut such presumption. Throughout the year, the Company continued to regard Mr J H Holt as independent. The only matter relevant for consideration in relation to Mr J H Holt is the duration of his appointment as a director, which commenced in 1999. The Board considers that, notwithstanding his length of service, throughout the year, Mr Holt remained independent in character and judgement and continued to be committed to his role. There are no relationships or circumstances in relation to any director which are regarded by the Company as having the potential to affect his exercising independent judgement.

Board composition and effectiveness

The Board reviews annually the composition of the Board and its committees and the respective contributions of each director. The effectiveness of the Board and committee structure is considered, together with the adequacy and appropriateness of the skill set of the Board, taking into account any new developments in the Company's business or strategy, and the range of expertise, knowledge and experience represented. The latest of these reviews concluded that the Board and its committees were operating effectively and that in particular, the clear demarcation of the respective responsibilities of the individual directors, the committees and the Board contributed strongly to their effective operation. The Board also concluded that the skills and experience present are appropriate to the Company's business activities and provide adequate oversight of the assessment and management of risk.

All directors seek election to the Board at the Annual General Meeting following their appointment. In accordance with the Company's Articles of Association, all directors seek re-election by rotation at least once every three years.

For the year under review, the Board has evaluated the performance of each director. The non-executive directors, led by the senior non-executive director and assisted by the chief executive have reviewed the performance of the other executive directors, the non-executives have reviewed the performance of the chief executive, and the Board has reviewed the performance of the non-executive directors.

Each non-executive director's performance in furthering the Company's objectives was assessed, together with his contribution in his areas of expertise, reflected in his committee work, participation in Board discussion and, where applicable, familiarisation visits. Attendance at meetings was also considered.

The evaluation of the non-executive directors also addressed their capability, time commitment and, where applicable, effectiveness in the role of committee chairman. The assessment of executive directors covered two aspects of performance: the director's individual contribution towards achievement of the Company's goals; and the achievement of individual objectives appropriate to his or her role.

The performance review of the chairman was conducted by the non-executive directors led by the senior non-executive director. They considered the responsibilities of the role as set out in the Code, including capability, time commitment, effectiveness and shareholder communication.

The chairman's principal commitments outside the Company as at 30 April 2009 were as, deputy chairman and chairman designate of Invensys PLC, non-executive director of BAE Systems PLC and Sappi Limited, non-executive chairman of BAA Limited and chairman of the Boardroom Issues Group of the Confederation of British Industry. The Board is satisfied that the chairman and each non-executive director is able to devote the amount of time required to attend to the Company's affairs and his duties as a Board member.

Information and advice

The directors regularly receive financial and other information concerning the Group's activities, plans and performance. Each director is entitled on request to receive from the Company information to enable him to make informed judgements and adequately to discharge his duties and has access to the advice and services of the company secretary on all matters of Board procedures and corporate governance. The company secretary also provides advice and support to each of the Board's committees and, in particular, to the chairman on all corporate governance matters. The directors' terms of appointment also permit them, at the Company's expense, to take independent professional advice in connection with their duties.

In line with common practice, the Company maintains insurance cover in respect of the liability of its directors and officers to third parties.

CORPORATE GOVERNANCE REPORT

Continued

Professional development

PROFESSIONAL DEVELOPMENT

The Board includes individuals from various backgrounds with many years' experience of senior positions either in listed companies or professional life. In carrying out their duties, the directors are expected to bring to bear an independent judgement on issues of strategy, performance, resource and standards of conduct. New Board members receive an induction tailored to their needs. An induction information pack, comprising constitutional documents, terms of reference and historical and accounting information is provided and operational site visits are undertaken to enable familiarisation with the Group's business. Where appropriate, both upon appointment and subsequently, formal training by external providers in matters such as the duties of directors, pension trusteeship and corporate governance is arranged. All directors are encouraged to maintain an awareness of new developments in the areas of the Group's principal activities and attend appropriate briefings on individual aspects of the Group's business or new developments. Where necessary, directors have access to professional training relating to their Board or committee functions. During the year, the chairmen of the Audit and Remuneration Committees have attended specialist briefings on issues relevant to their professional development and the business of their committees.

Board committees

BOARD COMMITTEES

The Board delegates certain matters to committees of the Board, each of which operates under written terms of reference. These, together with the committees' membership, can be found on the Pendragon PLC website, at www.pendragonplc.com

Nomination Committee

NOMINATION COMMITTEE

The Committee is composed of the non-executive directors, and its chairman is Sir Nigel Rudd. The Committee did not meet in 2008. The Committee is responsible for leading the process for appointments to the Board. The Committee and the Board operate to a protocol for the selection and appointment of executive and non-executive directors. This includes a six stage process, from the identification of the vacancy to the making of a recommendation to the Board for an appointment. Having identified a vacancy, the Committee assesses the current skills profile of the Board and produces a skills profile for the vacant position, with the aim of strengthening and enhancing the skills, knowledge base and experience of the Board. The need to advertise the vacancy or engage executive search advisors is considered. Interviews with short-listed candidates follow, conducted by an appropriately constituted panel of directors, comprising a majority of non-executive directors and excluding directors with any personal or business connections to the candidates. All Board members are given the opportunity to meet a recommended candidate before a nomination is put to the Board.

Remuneration Committee

REMUNERATION COMMITTEE

The Chairman of the Remuneration Committee, Mr M T Davies, is an independent non-executive director. The Committee is composed of non-executive directors considered by the Code to be independent, and the chairman, and meets at least once a year. In 2008 it met five times. The Committee has responsibility for determining the remuneration packages of the executive directors in the context of the policy adopted by the Board. It also liaises with the Nomination Committee to ensure the remuneration packages set for new executive directors are consistent with the Company's overall remuneration policy. It sets the targets for any performance related pay schemes applicable to executive directors and determines the policy for and scope of pension agreements, termination packages and compensation commitments for the executive directors. It is also responsible for ensuring that due regard is given to best practice in matters of executive remuneration and that the Company complies with all applicable regulations relating to executive remuneration.

The Directors' Remuneration Report is considered by the Remuneration Committee, but adopted by the Board as a whole. That Report is set out on pages 32 to 39.

Audit Committee

AUDIT COMMITTEES

The Committee is chaired by Mr J H Holt who is also the senior non-executive director. It is composed of the non-executive directors of the Company (except the chairman). The Committee is comprised entirely of non-executive directors considered by the Code to be independent.

Mr J H Holt is regarded by the Board as having recent and relevant financial experience, due to his lengthy career in accountancy, with PricewaterhouseCoopers, and as a result of his regular attendance at appropriate continuing professional development seminars. Meetings of the Audit Committee are held at least four times a year and are attended, by invitation, by the finance director, the head of the internal audit function and representatives of the company's external auditors, at the chairman's discretion. The Committee met five times in 2008.

CORPORATE GOVERNANCE REPORT
Continued

Audit Committee activities

AUDIT COMMITTEE ACTIVITIES

The meetings in April and August take place in advance of the preliminary and interim results announcements. At these meetings, the Committee considers the draft financial statements and the preliminary and interim results announcements. It also considers the report of the external auditors on the full-year audit, concentrating on issues of judgement and audit focus identified in the audit plan. Additional meetings, held in June and November, are concerned primarily with the review of the business risk management process, the outcomes from risk control visits, and the effectiveness of the visit plan for the current year, as well the external audit plan for the year, the audit fee and other significant corporate governance issues, such as those with Financial Services regulation implications.

At each meeting attended by the external auditors, the members of the Committee have the opportunity for discussion with the auditors without the finance director or head of internal audit being present. This permits any issues to be reviewed with, and assurances to be sought from, the external auditors independent of executive management involvement. The chairman of the Committee also makes himself available for meetings with the head of the Company's internal audit function to allow issues concerning controls and, in particular, the working and resourcing of the internal audit function, to be reviewed. The Committee's terms of reference are published on the Pendragon PLC website and, in summary, include responsibility for: monitoring the integrity of the Company's financial statements and any formal announcement relating to the Company's financial performance; making recommendations to the Board in relation to the appointment and removal of the external auditors, reviewing the external auditors independence and objectivity and the effectiveness of the audit process, and developing and implementing the Company's policy on the engagement of the external auditor to provide non-audit services. The Committee is also responsible for reviewing the Company's internal financial controls and system of internal control and risk management, monitoring and reviewing the effectiveness of the Company's internal audit department and ensuring adequate levels of staffing and ensuring that the Company's systems of control as they relate to activities regulated by the Financial Services Authority are adequate and functioning properly and are adequately resourced.

The review of the arrangements for employees to raise, in confidence, concerns about possible improprieties in relation to financial reporting or other matters also falls within the Audit Committee's responsibilities. The Committee reviews at least twice annually the Company's whistleblowing policy together with any follow up action taken, and its procedures for the reporting and recording of suspected fraud and dishonest acts. These items also form part of the Committee's standing agenda. As part of its regular monitoring activities during the year, the Committee reviewed and approved amendments to the Company's procedures, in particular regulated activities in the the areas of general insurance mediation regulated by the FSA, Anti-Fraud, Theft and Corruption, whistleblowing and Anti-Money Laundering. The Company's Anti-Fraud, Theft and Corruption Policy and Anti-Money Laundering Policy are available on the Company's website.

During the year the Committee chairman has carried out an evaluation of the independence of the Company's external auditor KPMG Audit Plc and reviewed the effectiveness of the external audit process. Matters addressed in the evaluation included an assessment of the quality of communication between the external auditor and the Audit Committee, the manner in which the relationship between the auditor and the Company is managed and the ability of the auditor to challenge practices and procedures and to communicate appropriately with the Company on any significant control weakness discovered in the course of their audit work. Also considered were the level of non-audit services provided by the external auditor and the potential this may have to impair the independence of the audit. The effectiveness of the internal audit function has also been formally assessed. The views of management and of the external auditor have been taken into account in the review of the internal audit function and the views of management have been taken into account in the review of the external auditor. Each review concluded that the functions were performing effectively.

The Committee has considered the policy in relation to the supply of non-audit services by the Company's auditor during the year. The Company's policy is not to exclude its auditor from undertaking non-audit work, but to permit the supply of such services in areas where, in the opinion of the Committee, it is appropriate to do so. The objective of the policy is to ensure that non-audit work is carried out in a way that affords full value for money, whilst obtaining a service that best serves the interests of the Company. Contracts for non-audit work are not therefore awarded to the Company's auditor where there is a perceived conflict of interest. Where appropriate, the provision of non-audit services is formally market tested through a tender process. The Committee has during the year reviewed the independence and objectivity of the external auditor, taking into consideration relevant professional and regulatory requirements with the aim of establishing that these are not impaired by the provision to the Company of non-audit services.

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

A full statement of the fees paid to KPMG Audit Plc and KPMG LLP for audit and non-audit services is provided in note 3 to the financial statements on page 61. The Committee has concluded that the provision of these services has not impaired audit independence.

CORPORATE GOVERNANCE REPORT

Continued

Systems of internal control

The Board is ultimately responsible for maintaining a sound system of internal control and for reviewing its effectiveness. The Board has adopted a risk-based approach to establishing a sound system of internal control. The system of control has been in place throughout the year. High level risk assessment occurs at one meeting of the Board during the year in the context of the Company's annual strategic review. Operational management is charged with responsibility for identifying and evaluating risks facing the Group's businesses on a day-to-day basis. In establishing and maintaining the Company's system of internal control, the Board has paid due regard to the Turnbull Guidance on risk management and internal controls.

The Board's process for satisfying itself of the effectiveness of the system of internal control relies on: assurance from executive management with regard to the design, communication and implementation of controls and provision of monitoring information; and assurance from the Audit Committee on the regular monitoring of the system and correction of any material control failures. 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. The Board has during the year reviewed all relevant risk areas and the system of internal controls and received reports on new risks and changes to the existing risks, based on the following broad areas:

- financial
- physical
- transactional
- technological
- socio-economic
- political and regulatory
- reputational

Operational management is supported in its role by a multi-disciplinary team, known as the Risk Control Group. This group is formed from senior representatives of the central finance, internal audit, information technology, legal and insurance functions, is chaired by the finance director and usually meets at least twice a year. The group met twice during 2008. It is attended by invitation by the chairman of the Audit Committee and representatives of the external auditor, at the discretion of the chairman. Its responsibilities include the regular review and rating of risks together with rating of the likelihood of the risk occurring and its potential impact on the Group, the identification of the need for corresponding controls and the monitoring of the design, communication and implementation of new controls and adaptation of existing controls to improve their effectiveness. The Risk Control Group has a reporting line direct to the Board. The internal audit function reports on matters of financial control each month directly to the Board.

Major commercial, technological and financial risks are assessed at the Board's annual planning meeting, which reviews the Company's principal areas of business and considers any adaptation to the Company's business strategy required to meet specific commercial and other risks or threats. The conclusions are incorporated in the Company's business strategy and formally adopted by the Board.

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

Management structure

Pendragon is a large multi-franchise retailer of motor vehicles and ancillary services, which operates through a divisional structure. The Group consists of two principal operating divisions, Evans Halshaw for volume franchises and Stratstone for luxury franchises and four support divisions (Information Technology, Parts Supply & Distribution, Finance & Insurance and Contract Hire) each headed by a Divisional Managing Director. Each Divisional Managing Director participates in a monthly operational board meeting, chaired by the Chief Operating Officer. Best practice meetings for each division, at which key operating controls and improvements to their implementation are discussed, are generally held monthly, chaired by each Divisional Managing Director.

Communication

There is an embedded culture of openness of communication between management and the Board on matters relating to risk and control. Face-to-face and video-conferencing meetings of all operational teams occur regularly. Processes are reinforced at operational meetings and via the Company's intranet and video communications.

Financial reporting

The Group operates to comprehensive management reporting disciplines which involve the preparation of financial plans by all operating units. The plans are reviewed by executive management and are subsequently passed to the Board for approval. Monthly actual results are reported against the approved plans.

Investment appraisal

The Group has a clearly defined framework for capital expenditure including appropriate authorisation levels, beyond which such expenditure requires the approval of the executive directors and, for larger capital projects, acquisitions and disposals, the Board. There is a prescribed format for capital expenditure applications which places heavy emphasis on the commercial strategic logic for the investment and demands a detailed financial presentation of the business case.

Functional reporting

The Group has identified a number of key areas which are subject to periodic reporting to the Board. These areas are given particular emphasis through the operation of appropriately constituted teams which meet regularly, and report to the Board via a designated executive director. These include the following central functions: group finance, treasury, corporate tax, value added tax, health and safety, human resources, information systems, internal audit, insurance, legal, payroll, property and training.

Risk Control

The work of the Risk Control Group is described above. Its remit includes the identification and assessment of new risks facing the Group's businesses,

CORPORATE GOVERNANCE REPORT
Continued

System of internal control (Continued)

business continuity planning and the establishment of policies and procedures for risk control for implementation in the Group's businesses. It has the power to co-opt representatives from the Group's operating business to assist in the design of new controls and the improvement of existing ones. A twice-yearly review of the Risk Control Group's work is included in the Board's agenda.

Processes, responsibilities and monitoring mechanisms and frequencies are defined and communicated to the directors and executives concerned and a regular pattern of meetings and reporting requirements established to ensure that the Board is sufficiently informed of risk management measures to enable them to review the effectiveness of the Group's systems of internal control.

Going concern

The directors are satisfied that the Group is in a sound financial position with adequate resources to continue in operation for the foreseeable future. In forming this view, the directors have reviewed budgets and other financial information. The financial statements of the Group have therefore been prepared on the basis that the Group is a going concern. For further information concerning the Group's liquidity and financing risk, see page 18 of the Report of Directors and note 18 to the Financial Statements, together with the directors' assessment of going concern.

Shareholder 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. The Board's statement concerning the respective roles of chairman and chief executive also deals with the Company's approach to shareholder communication and is available on the Pendragon PLC website. The chief executive, Mr T G Finn, is responsible for implementation of the strategy set by the Board. Among his duties is the conduct of communications with shareholders on the Company's performance. He must ensure that major shareholders have the opportunity for regular dialogue with the Company on issues of concern to them, and, in particular, that any changes in policy or strategy are effectively articulated to shareholders. In the main, shareholder communication is based around meetings with shareholders at key points in the financial reporting year. These are conducted by the chief executive and the finance director, rather than the non-executive chairman. In this respect the Company's approach is not compliant with the Code. 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. Issues raised by shareholders on these occasions are carefully noted and fed back to the Board, and, where appropriate, access to the chairman for further discussion is arranged. Each of the chairman and the senior non-executive director also holds himself available at all times for contact with shareholders. Unless specifically requested to participate in discussions or to provide information and explanations, each of them will, however, refer enquiries he receives to the chief executive. If the matter concerns the chairman's remuneration or performance or any other matter with which it is inappropriate for him to deal, it is referred to the senior non-executive director. The Board is always willing, where practicable, to enter into dialogue with shareholders based on mutual understandings of their respective objectives and being mindful of the Company's obligations under the listing rules. The respective chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee are available to answer shareholders' questions at the Annual General Meeting ("AGM").

Business at the Annual General Meeting

BUSINESS AT THE ANNUAL GENERAL MEETING

As well as dealing with formal business, the Company takes the opportunity afforded at the AGM to provide up-to-date information about the Company's trading position and to invite and answer questions from shareholders on its policies and business. At the AGM a separate resolution is being proposed for each substantive matter. The Company's annual report and financial statements are 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, to follow separately to this report.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Philosophy

PHILOSOPHY

Our culture is about the way we behave as an organisation. As a large employer and provider of goods and services to many thousands of customers, Pendragon PLC and its group touch the lives of many. As the occupier of hundreds of business premises and a customer of a wide range of businesses the Group benefits from and contributes to relationships with many suppliers and communities. Pendragon believes that long term success in business is greatly enhanced by valuing and developing relationships with key stakeholders. As a company, we operate within a framework of five core values, which recognise the broad needs and aspirations within each relationship. These values are the foundation of our culture and by ensuring that these values are known and understood, we can ensure that they can be applied by team members across all divisions and at all levels of the organisation.

Values

VALUES

The Company has adopted value statements which reflect the stakeholder groups. For each, Pendragon's vision is to be "the Number One Choice". Employees are encouraged to see themselves as part of a team, hence the expression "team member" is used for all those working within the Group's businesses. Team members are introduced to the Pendragon vision and values on joining and through regular communication, which reinforces the Company's philosophy and approach.

The Pendragon Vision
to be "the Number One Choice"

Our Customers
we provide a good value, personalised service to existing and potential customers

Our Manufacturers
we provide quality, brand focussed representation, meeting mutual aspirations of customer retention and sales volume

Our Suppliers
we provide long term, profitable partnerships in return for quality service and competitive pricing

Our Team Members
we provide secure, satisfying employment, recognising the contribution of each individual to the success of our business

Our Shareholders
we provide the best earnings per share performance over a rolling five year view against defined sector competition

Involvement and development

INVOLVEMENT AND DEVELOPMENT

The Group recognises the importance of good communications and relations with its team members, as its ability to meet the needs of its customers in a profitable and competitive manner depends on the contribution of team members throughout the Group. Team members are encouraged to develop their contribution to the business, wherever they work. In many areas ongoing 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. The Company's well-established practices in encouraging team member development and involvement provide substantial support for the renewal of this award.

Pension trusteeship

PENSION TRUSTEESHIP

Team member involvement also extends to the boards of trustees of the Company's various occupational pension schemes, details of which appear on page 33 within the Directors' Remuneration Report. A total of eight employee representatives, who broadly reflect the businesses from which scheme beneficiaries originate, served either directly as trustees or as directors of the schemes' corporate trustees during the year.

Share schemes and incentives

SHARE SCHEMES AND INCENTIVES

Team members' financial participation is encouraged through the Company's Sharesave scheme, which attracts membership from all levels within the Group's business. A variety of bonus schemes provide team members with rewards linked to the growth and prosperity of the business. At 31 December 2008 a total of 1,703 team members (15.72%) participated in ownership of shares and/or schemes linked to the Company's share performance.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Continued

Communication

COMMUNICATION

The challenges presented by the size of the Group and the importance of consistency drive the Company to devise and implement ever more innovative and timely means of communication. Video, internal website messaging and face to face presentations are used to keep team members up-to-date with the Company's strategy and performance. The leadership of the Group's businesses are a particular focus for channelling communications and regular briefings for all team members at each location provide a forum for sharing both corporate and local information. The Company promotes a number of internal publications based on its divisional structure which aim particularly to recognise the achievements of individual team members and celebrate outstanding business performance.

Community

COMMUNITY

As a multi-site, predominantly retail operator, the Group's community involvement is generated by its local businesses, which contribute to their local areas in a variety of ways. At a national level, predominantly through its Stratstone brand, the group has been a key sponsor and fundraiser of Sparks, the children's medical research charity. Local schools, hospitals and medical charities as well as Comic Relief and the BBC's Children in Need Appeal have all been beneficiaries of charity events organised by team members. The Company supports and encourages these activities and welcomes the opportunities they present for team-building within the businesses and relationship-building with the communities they serve.

Environment

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 registered with the Department of the Environment, Food and Rural Affairs' carbon reduction commitment scheme. The Company's statement of environment policy is available on the Pendragon PLC website.

Health and safety

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

In matters of 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 on-site monitoring. Team members are supported in discharging their responsibilities by specialist guidance from the Company's health and safety function and on-line training tool.

Disabled people

DISABLED PEOPLE

The Group recognises its responsibilities in employing and training people who are disabled, not all of whom are formally registered disabled persons in UK terms. If any team member becomes disabled it is standard practice, in all but the most extreme circumstances, to offer an alternative job or adapt the existing job and provide retraining where necessary.

Equal opportunities

EQUAL OPPORTUNITIES

The quality of the Company's relationships with its stakeholders will, in large measure, determine its success. Critical to those relationships is its ability to attract, motivate and retain the best team members. The Company's policy is to ensure that team members achieve their full potential within the business and that all employment decisions, from the advertisement of a vacancy through to the offer of development opportunities and further advancement, are taken without reference to any form of discriminatory criteria. The Company's equal opportunities policy is available on the Pendragon PLC website. Vacancies are first advertised internally on the Pendragon intranet to maximise the opportunity for career progression within the Group. The Company's bonus and incentive programmes are carefully researched and designed to ensure they are tailored to match reward to performance and recognise outstanding contributions to the Group's business.

DIRECTORS' REMUNERATION REPORT

Remuneration Committee

REMUNERATION COMMITTEE

The remuneration policy is determined by the Board and is described below. At 31 December 2008, the Remuneration Committee of the Board was composed of the non-executive directors Mr M T Davies (chairman), Mr J H Holt, Mr M J Le May, Mr D A L Joyce and Sir Nigel Rudd, who rejoined the Committee in February 2008 (the "Committee").

The Committee recommends to the Board the specific remuneration packages for executive directors and the chairman, although he is not party to any discussions in relation to his own remuneration. All of its recommendations made to the Board during the year were accepted. The Committee meets as often as necessary to discharge its duties, which during 2008 was five times. Details of members' attendance are set out in the Corporate Governance report on page 24. The terms of reference of the Committee are available on the Company's website.

Advisors

ADVISORS

During 2008, Sir Nigel Rudd and Mr T G Finn, provided internal advice to the Committee but not in respect of their own pay. The secretary to the Committee is Richard Maloney, the Group Solicitor.

Remuneration policy

REMUNERATION POLICY

A summary of the Committee's conclusions and policies implemented during the year were:

- Bonus targets for 2008 were set at the beginning of this year. It was considered that the performance target structure, originally set in 2007, remained appropriate, and should continue unchanged. This is made up of three elements: (i) adjusted PBT; (ii) gearing; and (iii) fulfilment of personal objectives. In the event, the 2008 targets have not been met and therefore bonus is not payable to executive directors.

- Executive directors' basic salary levels should remain unchanged from their 2007 levels. No increases in basic pay were made.

- Long Term Incentive Plan awards were made used the same performance measure structure as those adopted in 2006, as this was considered to be appropriate for 2008.

- Share options were awarded to below board level executives under the Pendragon 1999 Approved and Unapproved Share Option Schemes and these schemes should be renewed upon their expiry in April 2009.

- The exceptional circumstances presenting during 2009 and likely to prevail during 2009 require a broad range of incentive schemes to be available to motivate and retain executive directors and below board executives and the Company should both seek renewal of its existing executive share option schemes upon their expiry in 2009 and approval of an additional share ownership award scheme known as the ExSOP, which is a shared ownership share plan discussed in more detail on page 36.

- The Committee should consider awards to executive directors under any combination of the available share incentive schemes, subject to appropriate and robust performance targets and vesting conditions.

Non-executive directors remuneration policy

NON-EXECUTIVE DIRECTORS REMUNERATION POLICY

The Company's policy on non-executive directors' remuneration is reviewed annually by the Board. Remuneration for non-executive directors is confined to fees alone, without a performance related element. Non-executive directors may elect to receive all or part of their fees in the form of benefits in kind, typically the provision of a motor vehicle for their use. The Company considers that the remuneration of the non-executive directors is consistent with the time commitments associated with individual positions and wider market practice among companies of a comparable size. As such, remuneration for the chairmanship of Board committees, and the fees payable to the committee chairmen, first introduced in 2007, were considered to remain appropriate for 2008.

Executive directors remuneration policy

EXECUTIVE DIRECTORS REMUNERATION POLICY

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

The remuneration policy places great emphasis on ensuring that the executive directors' incentive arrangements have the potential to provide a greater reward than base salary. Combined with an approach that requires all incentive arrangements to be linked directly to business specific measures, this ensures that rewards will be based on the continued creation of shareholder value.

The Committee concluded in early 2008 that its remuneration policy, first introduced in February 2007, remains appropriate and supports the corporate strategy. For 2008, the remuneration policy remained as follows:

- Annual bonus linked with corporate performance targets, and capped at 100% of salary for exceptional performance;
- Awards under the Long Term Incentive Plan, first introduced in 2006, with a matching element of share based incentives.
- Going forward, it is considered desirable to broaden the range of equity incentives available for retention and incentive purposes, by once again including executive share option awards and a new plan intended to reward the creation of shareholder value and share price growth, detailed further under Equity Incentives below.

DIRECTORS' REMUNERATION REPORT

Continued

Importance of share ownership

IMPORTANCE OF SHARE OWNERSHIP

The Company recognises the importance and value of having executive directors who are significant shareholders in the Company.

To promote this goal for the next generation of executive directors, in 2005, the Company adopted share ownership guidelines. These guidelines encourage executive directors to hold shares costing 100% of salary (200% of salary for the chief executive) within three years of being appointed to the Board.

Details of the current directors' beneficial interest in shares is displayed in the table on page 20 of the Report of the Directors.

Base salary

BASE SALARY

Base salaries are reviewed annually and are set by reference to the individual's skill, experience and contribution. For 2008, it was not felt appropriate given the prevailing economic climate to increase the base salaries of the executive directors. The Committee therefore remained satisfied with both the salary level and the existing balance between fixed and variable pay.

Benefits

BENEFITS

Life assurance, private health cover, professional subscriptions, contribution to home telephone costs and the provision of two cars, one of which is fully expensed, are provided to the executive directors.

Pensions

PENSIONS

The executive directors did not receive any pension benefits during the year under review. Historically, they participated in the Pendragon Pension Plan, a defined benefit pension scheme providing a pension of up to two thirds of final salary on retirement. Certain executive directors remain entitled to a deferred pension, calculated up to the date of leaving the Plan. Details of their entitlements are set out on page 38.

The executive directors continue to receive a payment in lieu of pension contribution, which is circa 26% of salary for executive directors. This payment is not consolidated into the base salary for the purpose of future annual bonus payments or the LTIP, but will be monitored as a percentage of base salary.

Annual bonus

ANNUAL BONUS

The executive directors can earn up to 100% of salary in any one year on a sliding scale with 50% being awarded for achieving expected results and a further 50% for outstanding performance.

At the start of 2007, the Committee concluded that the executive directors' annual bonus potential of 100% of salary would be based on three separate measures of performance. The measures were as follows: adjusted profit before tax (weighted at 40%), gearing (weighted at 30%) and a personal objective for each executive (weighted at 30%), set by the chief executive or in the case of the chief executive, the chairman. Bonus awards at the highest available percentage of salary are made only upon achievement of outstanding performance. Bonuses are not pensionable. The bonus policy set in 2007 remained in place for the 2008 bonus awards. For the 2008 performance period, the Committee concluded that, given the prevailing economic climate, no bonuses would be awarded.

Equity incentives

EQUITY INCENTIVES

The extraordinary market and economic conditions in 2008 render the performance conditions for all LTIP awards made to date unattainable. Details of awards are set out on page 35. Whilst this does not necessarily lead to the conclusion that the LTIP structure has become inappropriate, these circumstances have led the Committee to review the range of equity incentives available to the Company for award to executive directors and below board executives. It has concluded that, subject to suitably stretching performance measures, the Company should maintain the flexibility to make incentive awards to executive directors under executive schemes of the kind it has traditionally operated, and under any newly introduced scheme, as may be appropriate in the circumstances of a performance year. Details of the equity incentives, both existing and proposed, and the Company's approach to their use, are set out below. Approval of the Replacement Executive Schemes and adoption of the ExSOP will afford the Company a range of equity-based incentives from which to select the appropriate reward structure. Performance conditions will continue to be set at the time of award and will incorporate a mix of earnings per share ("EPS") growth and, where considered appropriate, total shareholder return ("TSR"), measures. It is intended that when awards, whatever their combination, are made to executive directors, the cumulative potential reward will remain proportionate in the context of the total remuneration of the individual director and the balance of his fixed and variable pay, and the vesting conditions will not disproportionately concentrate the crystallisation of reward into any one year.

DIRECTORS' REMUNERATION REPORT

Continued

Long Term Incentive Plan ("LTIP")

LONG TERM INCENTIVE PLAN ("LTIP")

The 2006 Pendragon Long Term Incentive Plan ("LTIP") operated during 2008 as the sole discretionary long term incentive plan for executive directors. The key features of the LTIP are:

- executive directors may choose to re-invest their annual bonus in purchasing Pendragon shares or buy shares from their own personal resources of an amount up to 100% of salary (referred to as "Investment Shares") which will then be matched with an award over shares with the same pre-tax value as the monies used to buy the shares;
- Matching Share Awards are an award over a fixed number of shares that "matches" the gross number of Investment Shares that the directors have chosen to purchase using their annual bonus. The executive directors each invested their total net bonus for 2005, 2006 and 2007 in Pendragon shares, at purchase prices of £1.24, £1.107 and £0.33 pence per share respectively.
- Matching Share Awards will vest on the third anniversary of their grant date (a) provided the executive is still employed by Pendragon; (b) to the extent that a performance condition has been satisfied; and (c) to the extent that the Investment Shares purchased by the executive have been retained for the three years;
- Awards are subject to adjusted earnings per share ("EPS") growth targets:

EPS growth per annum	Vesting percentage
less than RPI + 4%	0%
RPI + 4%	30%
RPI + 10% or more	100%
between RPI + 4% and RPI + 10%	straight-line vesting between 30% and 100%

adjusted EPS has been used because it is a key internal measure of long term company performance.

- additionally, under the LTIP, the executive may be granted performance share awards worth up to 100% of base salary per annum;
- the vesting of Performance Share Awards will occur on the third anniversary of the grant date, provided that the executive is still employed by the Company and the same performance conditions as described above have been satisfied and
- The adjusted EPS growth targets for 2008 are underpinned by a requirement that the Company's total shareholder return ("TSR") outperforms the FTSE 350 total return index over the performance period, with TSR calculations being averaged over a three monthly period prior to both the beginning and end of the performance period.

Details of awards made to the incumbent executive directors are set out on page 35.

DIRECTORS' REMUNERATION REPORT

Continued

Directors' LTIP Awards

DIRECTORS' LTIP AWARDS

Details of the conditional awards made to the executive directors under the LTIP are set out below:

	Interests under LTIP at 01.01.08	Awarded on 31.03.08	Exercised	Lapsed	Total Interests under LTIP at 31.12.08	Date of Award	Total of all Investment Shares Purchased as at 31.12.08	Vesting Date (subject to conditions being satisfied)
T G Finn								
Matching Shares 2008	-	336,828	-	-	336,828	31.03.08	191,017	31.03.12
Performance Shares 2008	-	1,439,440	-	-	1,439,440	31.03.08	n/a	31.03.12
Matching Shares 2007	176,222	-	-	-	176,222	15.03.07	297,001	15.03.10
Performance Shares 2007	419,580	-	-	-	419,580	15.03.07	n/a	15.03.10
Matching Shares 2006	329,100	-	-	-	329,100	09.05.06	196,270	09.05.09
Performance Shares 2006	359,020	-	-	-	359,020	09.05.06	n/a	09.05.09
M S Casha								
Matching Shares 2008	-	187,129	-	-	187,129	31.03.08	106,122	31.03.12
Performance Shares 2008	-	799,689	-	-	799,689	31.03.08	n/a	31.03.12
Matching Shares 2007	97,901	-	-	-	97,901	15.03.07	152,787	15.03.10
Performance Shares 2007	233,100	-	-	-	233,100	15.03.07	n/a	15.03.10
Matching Shares 2006	162,355	-	-	-	162,355	09.05.06	96,825	09.05.09
Performance Shares 2006	199,355	-	-	-	199,355	09.05.06	n/a	09.05.09
D R Forsyth								
Matching Shares 2008	-	130,991	-	-	130,991	31.03.08	74,286	31.03.12
Performance Shares 2008	-	559,782	-	-	559,782	31.03.08	n/a	31.03.12
Matching Shares 2007	68,530	-	-	-	68,530	15.03.07	115,063	15.03.10
Performance Shares 2007	163,170	-	-	-	163,170	15.03.07	n/a	15.03.10
Matching Shares 2006	127,250	-	-	-	127,250	09.05.06	75,890	09.05.09
Performance Shares 2006	139,620	-	-	-	139,620	09.05.06	n/a	09.05.09
H C Sykes								
Matching Shares 2008	-	93,566	-	-	93,566	31.03.08	53,062	31.03.12
Performance Shares 2008	-	399,844	-	-	399,844	31.03.08	n/a	31.03.12
Matching Shares 2007	48,950	-	-	-	48,950	15.03.07	79,271	15.03.10
Performance Shares 2007	116,550	-	-	-	116,550	15.03.07	n/a	15.03.10
Matching Shares 2006	86,000	-	-	-	86,000	09.05.06	51,290	09.05.09
Performance Shares 2006	99,725	-	-	-	99,725	09.05.06	n/a	09.05.09

The details of the performance targets applying to all matching share and performance share awards under the LTIP are set out on page 34.

Share options

SHARE OPTIONS

Executive directors have historically participated in the Pendragon 1999 Approved Executive Share Option Scheme, which is an HM Revenue and Customs approved scheme, and the Pendragon 1999 Unapproved Executive Share Option Scheme (the "Executive Schemes"), each of which was approved at the Company's 1999 Annual General Meeting. Options become exercisable between three and ten years after grant subject to fulfilment of the performance conditions which require the Company's adjusted earnings per share over the three consecutive financial years beginning with the financial year in which the option is granted exceeding by at best 3 percent per annum compound the increase in the Retail Price Index over the same period. No variation has been made during the financial year in the terms and conditions of the share options or the Executive Schemes. No awards were made to executive directors under the Executive Schemes during the year under review. The Committee considers the ability to make awards under schemes of this type an important feature of the Company's overall portfolio of available incentives, both at executive director and below board level. At its forthcoming annual general meeting the Company is seeking shareholders' approval to renew the Expiring Schemes on substantially the same terms but updated in line with market practice. Further details are provided on page 36.

DIRECTORS' REMUNERATION REPORT
Continued

Directors' share options (audited information)

DIRECTORS' SHARE OPTIONS

	At 01.01.08	Number of options lapsed during year	Number of options exercised during year	Number of options granted during year	At 31.12.08	Exercise price (pence)	Exercise period
T G Finn	*27,355	-	-	-	*27,355	60.4	01.07.10 to 31.12.10
M S Casha	*27,355	-	-	-	*27,355	60.4	01.07.10 to 31.12.10
D R Forsyth	*14,450	-	-	-	*14,450	24.56	01.07.10 to 31.12.10
H C Sykes	*21,880	-	-	-	*21,880	60.4	01.07.10 t0 31.12.10
Total	91,040				91,040		

None of the directors exercised share options during 2008 and none were exercisable.

There have been no changes in directors' share options outstanding or exercised since 31 December 2008.

* Sharesave options granted under the Pendragon 1998 Sharesave Scheme that have no performance conditions.

Proposed new share plan

PROPOSED NEW SHARE PLAN

Pendragon 2009 Executive Shared Ownership Plan ("Plan" or "ExSOP") It is proposed to adopt a new executive share plan, in addition to the renewal of the Expiring Schemes. This is a selective share incentive plan entailing the recipient of an award acquiring, jointly with an employees' trust, ordinary shares in the Company and benefiting from growth in the market value of the jointly-owned shares. Vesting of the Plan shares may, and, in the case of executive directors, will be, made subject to performance conditions relating to a minimum three year period. The ExSOP differs from an executive share option in that, from the outset, the participant holds a restricted interest, as joint owner, in Plan shares. A participant pays a nominal amount to acquire such interest, rather than paying an option exercise price at time of acquisition of the option shares. The Company's approach to performance targets is expected to be broadly the same as for the Company's expiring executive share option schemes, through the adoption of EPS growth, and, where considered appropriate, TSR measures. These will be determined and set when awards are made. A detailed description of the ExSOP will be provided in the circular to shareholders accompanying the Notice of Annual General Meeting, but in summary the key features are:

- individual participants may be invited to acquire (for a nominal payment), jointly with an employee benefit trust, the beneficial interest in a number of shares under the terms of a "joint ownership agreement";
- participating team members benefit from any growth in the value of Plan shares that exceeds the market value at the time of award, less a contribution towards the cost of funding the initial acquisition of the Plan shares ("carrying cost") determined by the Company, and expected to be the equivalent of no more than 5% per annum simple, accruing over a three year period;
- specific performance targets relating to a minimum three year period, and other vesting conditions, will be determined at the time of any award, relative to role and seniority of the intended recipient, and will take into account the cumulative effect of potential rewards he may receive under awards made to him under other Company equity-related schemes in respect of the same performance period.

Proposed Replacement Share Plans: The Pendragon 2009 Approved Executive Share Option Scheme and the Pendragon 2009 Unapproved Executive Share Option Scheme ("Replacement Executive Schemes") Proposed replacements for the Pendragon 1999 Approved Executive Share Option Scheme (the Company's existing HM Revenue and Customs approved executive share option scheme) and the Pendragon 1999 Unapproved Executive Share Option Scheme (together the "Expiring Schemes").

The Committee proposes that a new HM Revenue and Customs approved executive share option scheme and an new unapproved executive share option scheme (together "Replacement Executive Schemes"), substantially on the same terms as the Expiring Schemes, be adopted. A detailed description of the Replacement Executive Schemes will be provided in the circular to shareholders accompanying the Notice of Annual General Meeting. However, their terms and features are substantially similar to those of the Expiring Schemes, details of which are set out on page 34. Both executive directors and below Board executives will be eligible to participate in the Replacement Executive Schemes.

Although the Company has no current proposals to make awards to executive directors either under the ExSOP or the Replacement Executive Schemes, it is intended that, going forward, awards under any or all of them may be made to executive directors as well as to below Board level executives. Where awards are proposed to be made to executive directors, under either the ExSOP or Replacement Executive Schemes, the Company intends to consult shareholders as to the appropriateness of the performance conditions to be adopted.

The incumbent directors' beneficial interests in shares are displayed in the table on page 20 of the Report of the Directors.

DIRECTORS' REMUNERATION REPORT

Continued

Share price information and performance (not subject to audit)

SHARE PRICE INFORMATION AND PERFORMANCE

There are no other share option or long term incentive schemes for which the directors are eligible outside of those detailed above. The middle market price of Pendragon PLC ordinary shares at 31 December 2008 was 1.65 pence and the range during the year was 1.4 pence to 42.75 pence.

Directors' service contracts

DIRECTORS' SERVICE CONTRACTS

All four of the executive directors have service contracts that commenced on 20 December 1999 and do not have an expiry date but can be terminated on giving one year's notice. The appointment to the Board of any further executive directors would be expected to be on similar terms. Compensation payable to directors in the event of loss of office is detailed in the Report of the Directors on page 20.

Each of the executive directors' contract includes protection for the director in the event of a termination arising from a change of control. These are more particularly detailed in the Report of Directors on page 20. The Company continues to believe that these provisions are appropriate. Copies of the individual contracts of appointment are available for inspection by shareholders at the AGM.

Non-executive directors

NON-EXECUTIVE DIRECTORS

Each non-executive director has a fixed two year contract, renewable upon expiry at the Company's discretion. When making a decision on reappointment, the Board reviews the non-executive director's attendance and performance at meetings and the composition and skills of the Board as a whole. Individual details of contracts are:

Name	Commencement	Expiry	Unexpired Term (months)
Sir Nigel Rudd	01.01.09	31.12.10	20
J H Holt	01.01.08	31.12.09	8
M T Davies	01.01.09	31.12.10	20
D A L Joyce	01.01.08	31.12.09	8
M J Le May	01.01.08	31.12.09	8

Consistent with the policy for executive directors, the contracts include a provision that the non-executive director will be entitled to a year's total fees and benefits if the contract is terminated by either party following a change of control. Copies of the individual contracts of appointment are available for inspection by shareholders at the AGM.

Fees from external directorship

FEES FROM EXTERNAL DIRECTORSHIPS

None of the executive directors holds non-executive directorships at other companies other than voluntary or honorary (that is, unpaid) offices. Accordingly, no formal policy has been adopted to deal with whether or not the executive director would be entitled to retain the fees from any such position.

DIRECTORS' REMUNERATION REPORT

Directors' emoluments for the year to 31 December 2008 (audited information)

	Salary/Fees £000	Committee /Chair Fees £000	Bonus £000	Benefits‡ £000	Salary supplement in lieu of Pension Contribution £000	Total emoluments 2008 £000	Total emoluments 2007 £000
Executive directors							
T G Finn	464	-	-	51	121	636	730
M S Casha	258	-	-	24	67	349	405
D R Forsyth	180	-	-	26	47	253	293
H C Sykes	129	-	-	16	33	178	207
Non-executive directors							
Sir Nigel Rudd	160	-	-	-	-	160	160
J H Holt	35	10*	-	-	-	45	45
M T Davies	35	5**	-	-	-	40	40
D A L Joyce	35	-	-	-	-	35	35
M J Le May	35	-	-	-	-	35	35
Total	1,331	15	-	117	268	1,731	1,950

‡ Benefits include life assurance, private health cover, professional subscriptions, contribution to home telephone costs and the provision of two cars, one of which is fully expensed.
* in relation to chairmanship of Audit Committee (£7,500) and senior non-executive director (£2,500).
** in relation to chairmanship of the Remuneration Committee.

Pension contributions paid in 2008 were £0 (2007: £0). Each executive director withdrew from the Pendragon Pension Plan during 2006.

Directors' pension entitlements (audited information)

Pensions The assets of the Pendragon Pension Plan, established for the benefit of the Group's eligible employees, are held by trustees separately from those of the Group. The Plan operates through a trustee company of which Mr W W Rhodes, a former non-executive director of the Company, is the chairman. The management of the Plan's assets is delegated to specialist independent investment managers and there is no direct investment in Pendragon PLC. During 2006, the executive directors withdrew from the Plan. Mr Casha and Miss Sykes remain entitled to a deferred pension, calculated up to the date of leaving the Plan. The non-executive directors are not eligible to participate in the Pendragon Pension Plan.

£000	T G Finn	M S Casha	D R Forsyth	H C Sykes
Total annual accrued pension entitlement at 31.12.07 (p.a)	392	136	69	44
Total annual accrued pension entitlement at 31.12.08(p.a)	*	141	*	46
Increase in accrued pension during the year excluding inflation (p.a)	0	0	0	0
Increase in accrued pension during the year including inflation (p.a)	0	5	0	2
Transfer value of increase excluding inflation	0	0	0	0
Transfer value of accrued benefit at 31.12.07	7,130	2,059	629	338
Transfer value of accrued benefit at 31.12.08	*	1,920	*	302
Increase in transfer value over the year	n/a	(139)	n/a	(36)

*Mr D R Forsyth elected to transfer his accrued pension entitlement to another registered pension scheme on 27 November 2008. Mr T G Finn elected to take early retirement benefits on 8 February 2008; hence there are no transfer values of accrued benefits for these participants as at 31 December 2008.

The pension benefits shown are those which would be paid annually on retirement, based on service up until the date the director withdrew from the Plan. The benefits allow for any retained benefits which the directors may have relating to previous employment.

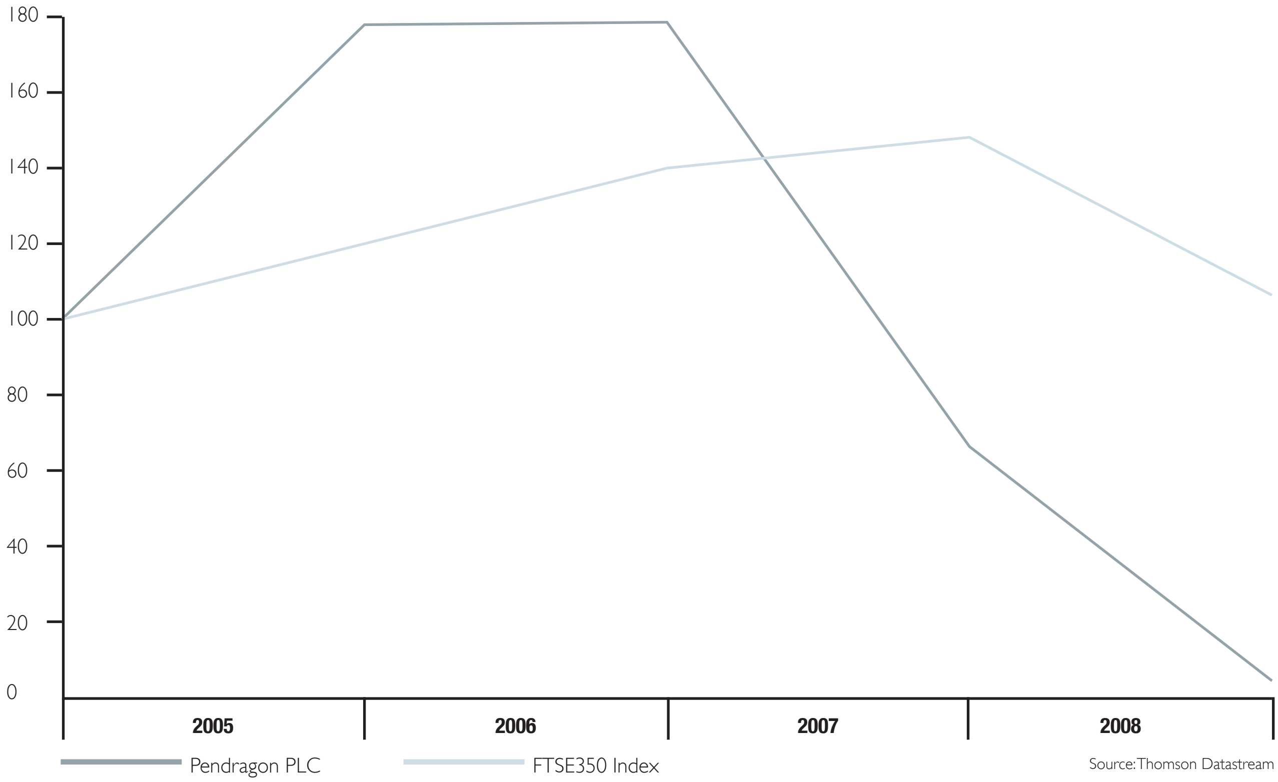
The transfer values have been calculated on the basis of actuarial advice in accordance with actuarial advice and exclude directors' contributions. All the above pension benefits exclude any additional pension purchased by additional voluntary contributions.

DIRECTORS' REMUNERATION REPORT

Continued

Total shareholder return (not subject to audit) TOTAL SHAREHOLDER RETURN

The graph below shows the growth in total shareholder return on the Company's shares in comparison to the FTSE 350 Index (excluding investment companies. For the purposes of the graph, total shareholder return has been calculated as the percentage change during the relevant period in the market price of the shares, assuming that any dividends paid are reinvested. The relevant period is the five years ending 31 December 2008. A more detailed description of the total shareholder return calculation is set out in the Notes.



1. This report is required, pursuant to the Regulations, to contain this graph as a visual interpretation of the share price performance against a comparator stock market index.

2. Total Shareholder Return ("TSR") is calculated over the period of five years ended on 31 December 2008 and reflects the theoretical growth in the value of a shareholding over that period, assuming dividends are reinvested in shares in the Company. The price at which the dividends are reinvested is assumed to be the amount equal to the closing price of the shares on the ex-dividend date plus the gross amount of annual dividend. The calculation ignores tax and reinvestment charges. For each company in the index the TSR statistics are normalised to a common start point, which gives the equivalent to investing the same amount of money in each company at that time. The percentage growth in TSR is measured over the chosen period. To obtain the TSR growth of the relevant index over the chosen period, the weighted average TSR growth for all the companies in the index is calculated. In this case, it is the FTSE350 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 350 Index has been selected as it represents the equity market in which the Company was a constituent member for the majority of the five year period.

Whilst reporting on remuneration issues, I am pleased to advise that below Board level, 21% of the Company's costs of employing its team members related to team incentives, reflecting the performance culture that exists throughout the Company. In addition as at 31 December 2008, 15.72% of the Company's team members were participants in one or more of its share based incentive plans.

Mike Davies
Chairman of the Remuneration Committee
30 April 2009

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).

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair value are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting polices 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 proper accounting records that 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 1985. They have a 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 comply 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENDRAGON PLC

We have audited the group and parent company financial statements (the "financial statements") of Pendragon PLC for the year ended 31 December 2008 which comprise Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 40. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operational and Business Review that is cross referred from the Business Review section of the Directors' Report,

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants, 2 Cornwall Street, Birmingham, B3 2DL.
Registered Auditor
30 April 2009

CONSOLIDATED INCOME STATEMENT

Year Ended 31 December 2008

Notes		Before non-recurring £m	Non-recurring £m	**2008 £m**	Before non-recurring £m	Non-recurring £m	2007 £m
2	**Revenue**	4,025.5	136.9	**4,162.4**	5,024.1	36.1	5,060.2
	Cost of sales	(3,495.8)	(123.4)	**(3,619.2)**	(4,354.5)	(33.0)	(4,387.5)
	Gross profit	529.7	13.5	**543.2**	669.6	3.1	672.7
3	Operating expenses	(503.9)	(170.2)	**(674.1)**	(568.3)	(17.1)	(585.4)
	Operating (loss) / profit before other income	25.8	(156.7)	**(130.9)**	101.3	(14.0)	87.3
3	Other income - (losses) / gains on the sale of businesses and property	-	(5.2)	**(5.2)**	-	18.5	18.5
	Operating (loss) / profit	25.8	(161.9)	**(136.1)**	101.3	4.5	105.8
7	Finance expense	(83.0)	(11.2)	**(94.2)**	(83.5)	-	(83.5)
8	Finance income	25.4	8.3	**33.7**	23.4	-	23.4
	Net finance costs	(57.6)	(2.9)	**(60.5)**	(60.1)	-	(60.1)
	Share of (loss) / profit before tax from joint venture	2.2	(6.2)	**(4.0)**	1.2	-	1.2
13	Share of income tax expense from joint venture	-	-	**-**	(0.4)	-	(0.4)
13	Share of post tax profit from joint venture	2.2	(6.2)	**(4.0)**	0.8	-	0.8
	(Loss) / profit before taxation	(29.6)	(171.0)	**(200.6)**	42.0	4.5	46.5
9	Income tax credit / (expense)	10.4	30.1	**40.5**	(9.2)	5.9	(3.3)
	(Loss) / profit from continuing operations	(19.2)	(140.9)	**(160.1)**	32.8	10.4	43.2
	Discontinued operation						
6	Loss from discontinued operation (net of income tax)			**-**			(2.1)
	(Loss) / profit for the year			**(160.1)**			41.1
10	**Earnings per share**						
	Basic			**(25.2)p**			6.5p
	Diluted			**(25.2)p**			6.4p
10	**Earnings per share continuing operations**						
	Basic			**(25.2)p**			6.8p
	Diluted			**(25.2)p**			6.7p

The notes on pages 46 to 94 form part of these financial statements

CONSOLIDATED BALANCE SHEET

at 31 December 2008

Notes		2008 £m	restated * 2007 £m
	Non-current assets		
12	Property, plant and equipment	**336.3**	385.1
11	Goodwill	**372.2**	427.2
11	Other intangible assets	**2.4**	2.1
18	Derivative financial instruments	**38.5**	-
9	Deferred tax assets	**25.1**	-
13	Investment in joint venture	**-**	4.0
	Total non-current assets	**774.5**	818.4
	Current assets		
14	Inventories	**655.8**	786.5
15	Trade and other receivables	**133.6**	205.9
25	Cash and cash equivalents	**154.6**	52.6
31	Non-current assets classified as held for sale	**37.3**	59.7
	Total current assets	**981.3**	1,104.7
	Total assets	**1,755.8**	1,923.1
	Current liabilities		
17	Interest bearing loans and borrowings	**(82.2)**	(81.8)
16	Trade and other payables	**(922.5)**	(1,081.2)
30	Deferred income	**-**	(0.9)
	Current tax payable	**(19.8)**	(13.5)
19	Provisions	**(33.4)**	(3.5)
	Total current liabilities	**(1,057.9)**	(1,180.9)
	Non-current liabilities		
17	Interest bearing loans and borrowings	**(468.2)**	(297.2)
18	Derivative financial instruments	**-**	(5.6)
30	Deferred income	**(19.7)**	(20.2)
9	Deferred tax liabilities	**(29.1)**	(44.0)
28	Retirement benefit obligations	**(65.4)**	(58.8)
19	Provisions	**(6.6)**	(9.2)
	Total non-current liabilities	**(589.0)**	(435.0)
	Total liabilities	**(1,646.9)**	(1,615.9)
	Net assets	**108.9**	307.2
	Capital and reserves		
20	Called up share capital	**32.8**	32.8
21	Share premium account	**56.8**	56.8
21	Capital redemption reserve	**2.5**	2.5
21	Other reserves	**12.6**	12.6
21	Translation reserve	**(1.7)**	(0.4)
21	Retained earnings	**5.9**	202.9
	Total equity attributable to equity shareholders of the Company	**108.9**	307.2

Approved by the Board of directors on 30 April 2009 and signed on its behalf by :

T G Finn
Chief Executive

D R Forsyth
Finance Director

* see changes of accounting policy - note 1ad
The notes on pages 46 to 94 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

Year Ended 31 December 2008

Notes		2008 £m	2007 £m
	Cash flows from operating activities		
	(Loss) / profit for the year	**(160.1)**	41.1
	Adjustment for loss / (income) from joint venture	**4.0**	(0.8)
	Adjustment for taxation	**(40.5)**	3.3
	Adjustment for net financing expense	**60.5**	60.9
		(136.1)	104.5
	Depreciation and amortisation	**56.3**	59.3
	Share based payments	**0.2**	-
	Loss/(profit) on sale of businesses and property	**5.2**	(18.0)
	Impairment of property, plant and equipment	**15.2**	-
	Impairment of assets held for sale	**11.9**	-
	Goodwill impairment	**58.1**	6.8
	Changes in inventories	**77.0**	80.1
	Changes in trade and other receivables	**68.1**	55.0
	Changes in trade and other payables	**(110.6)**	(109.6)
	Changes in retirement benefit obligations	**(19.0)**	(18.9)
	Changes in provisions	**27.3**	0.8
	Cash generated from operations	**53.6**	160.0
	Taxation refunds received / (taxation paid)	**15.0**	(4.8)
	Interest received	**11.0**	1.3
	Interest paid	**(75.1)**	(64.5)
	Net cash from operating activities	**4.5**	92.0
	Cash flows from investing activities		
23	Business acquisitions, net of cash acquired	**-**	(16.3)
24	Proceeds from sale of businesses	**7.7**	20.6
13	Purchase of investment in joint venture	**-**	(0.2)
	Purchase of property, plant, equipment and intangible assets	**(150.1)**	(163.8)
	Proceeds from sale of property, plant and equipment	**130.6**	134.6
	Payments for investments	**-**	(1.2)
	Receipts from sales of investments	**0.1**	1.0
	Net cash used in investing activities	**(11.7)**	(25.3)
	Cash flows from financing activities		
	Payment of capital element of finance lease rentals	**(4.1)**	(5.4)
	Repayment of unsecured bank loans	**(44.0)**	(20.0)
	Repayment of loan notes	**-**	(7.8)
	Proceeds from issue of unsecured loans	**169.4**	25.0
22	Dividends paid to shareholders	**(15.9)**	(25.4)
	Net cash inflow / (outflow) from financing activities	**105.4**	(33.6)
	Effects of exchange rate changes on cash held	**3.8**	(0.2)
	Net increase in cash and cash equivalents	**102.0**	32.9
	Cash and cash equivalents at 1 January	**52.6**	19.7
25	Cash and cash equivalents at 31 December	**154.6**	52.6

The notes on pages 46 to 94 form part of these financial statements

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE Year Ended 31 December 2008

	2008 £m	restated * 2007 £m
Foreign exchange translation differences	**(1.3)**	(0.1)
Defined benefit plan actuarial gains and losses	**(71.7)**	28.3
Adjustment in respect of minimum funding requirement on defined benefit plans	**42.1**	(32.5)
Tax on income and expense recognised directly in equity	**8.3**	0.4
Income and expense recognised directly in equity	**(22.6)**	(3.9)
(Loss) / profit for the year	**(160.1)**	41.1
Total recognised income and expense for the period attributable to equity holders of the Company	**(182.7)**	37.2

* See change of accounting policy - note 1ad.

The notes on pages 46 to 94 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Pendragon PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 31 December 2008 comprise the Company and its subsidiaries and the Group's interest in jointly controlled entities.

(a) Statement of compliance The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs").

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 95 to 102.

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

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

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

As described in the directors' report on page 17 the current economic environment is challenging and the Group has reported an operating loss for the year. The directors consider that the outlook presents significant challenges in terms of sales volume and pricing as well as input costs and the directors have instituted significant measures to reduce operating costs and preserve cash.

The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described in the Operational and Business Review. In addition, Note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit, market and liquidity risk. Further details of the Group's cash balances and borrowings are included in Notes 17, 18 and 25 of the financial statements.

On 30 April 2009, the Group concluded facility negotiations with its lenders, as set out below. The directors have assessed the future funding requirements of the Group and the Company and compared them to the level of committed available borrowing facilities. The assessment included a detailed review of financial forecasts, financial instruments and hedging arrangements for the 14 months from the balance sheet date and a review of group cash flow projections to December 2012. Recognising that a number of industries and especially the automotive sector continue to be affected by a sharp decline in demand, the directors considered a range of potential scenarios within the key markets the Group serves and how these might impact on the Group's cash flow, facility headroom and banking covenants. The directors also considered what mitigating actions the Group could take to limit any adverse consequences. The Group's forecasts and projections, taking account of reasonably possible scenarios, show that the Group should be able to operate within the level of its borrowing facilities for the foreseeable future.

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

The preparation of financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the directors in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

NOTES TO THE FINANCIAL STATEMENTS

Continued

1. cont Accounting policies (continued)

(c) Basis of consolidation The consolidated financial statements include the financial statements of Pendragon PLC, all its subsidiary undertakings and the Group's share of its joint venture under the equity accounting method. Consistent accounting policies have been applied in the preparation of all such financial statements including those of the joint venture.

(i) Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Joint ventures
Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. The consolidated financial statements include the Group's proportionate share of the entities' net assets and profit after tax, on an equity accounted basis, from the date joint control commences until the date that joint control ceases.

(iii) Transactions eliminated on consolidation
Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with joint ventures are eliminated against the investment to the extent of the Group's interest in the entity.

(d) Accounting for business combinations and disposals The results of companies and businesses acquired or disposed of during the year are included from the effective date of acquisition or up to the effective date of disposal using the acquisition method of accounting. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition.

(e) Revenue Revenue from the sale of goods is recognised in the income statement, net of discounts, when the significant risks and rewards of ownership have been transferred to the buyer. In general this occurs when vehicles or parts have been supplied or when service has been completed. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to time expended on services that are charged on labour rate basis.

Where vehicles are supplied to a leasing company for contract hire purposes and the Group undertakes to repurchase the vehicle at a predetermined date and value the significant risks and rewards of ownership are deemed not to have transferred outside the Group and consequently no sale is recognised. As a result the accounting for the arrangement reflects the Group's retention of the asset to generate future rentals and, in accordance with IAS 17 'Leases', the Group is being considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing company are held as deferred income allocated between the present value of the repurchase commitment and a residual amount of deferred revenue, both amounts being held within trade and other payables. A finance charge is accrued against the present value of the repurchase commitment and recorded as a finance expense in the income statement. The remaining deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term. No additional disclosures are made under IAS 17 as there are no future rentals receivable. These vehicles are held as plant and equipment at their cost to the Group and are depreciated to their residual values over the terms of the leases. Revenue also comprises commissions receivable for arranging vehicle finance.

Profit in respect of warranty policies administered by the Group is recognised only on expiry of a policy, as prior to this the directors consider it appropriate to defer income against the future warranty service costs of those policies.

(f) Non-recurring items Non-recurring items are those items that are unusual because of their size, nature or incidence. The Group's management consider that these items should be disclosed separately to enable a full understanding of the Group's results.

NOTES TO THE FINANCIAL STATEMENTS
Continued

1. cont Accounting policies (continued)

(g) Intangible assets and goodwill

(i) All business combinations are accounted for by applying the purchase method. Goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary undertakings at the effective date of acquisition and is included in the balance sheet under the heading of intangible assets. The goodwill is allocated to cash generating units and an impairment test is performed annually. Goodwill is then held in the balance sheet at cost less any accumulated impairment losses.

If the cost on acquisition is less than the net fair value of the identifiable assets, liabilities and contingent liabilities acquired the difference is recognised directly in the consolidated income statement.

Adjustments are applied to bring the accounting policies of the acquired businesses into alignment with those of the Group. The costs associated with reorganising or restructuring are charged to the post acquisition income statement. For those acquisitions made prior to 1 January 2004, goodwill is recorded on the basis of its deemed cost which represented its carrying value as at 1 January 2004 under UK GAAP. Fair value adjustments are made in respect of acquisitions. If at the balance sheet date the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

(ii) Internally generated intangible assets relate to development activities that involve the development of dealer management software by the Group's Pinewood division. Development expenditure is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the costs of labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Intangible assets other than goodwill are stated at cost less accumulated amortisation and any impairment losses. This category of asset includes purchased computer software and internally generated intangible assets which are amortised by equal instalments over four years and the fair value of the benefit of forward sales orders assumed on acquisition, which is amortised by reference to when those orders are delivered.

(iv) Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Intangible assets arising on an acquisition are recognised separately from goodwill if the fair value of the asset can be identified separately and measured reliably. Amortisation is calculated on a straight line basis over the estimated useful life of the intangible asset. Amortisation methods and useful lives are reviewed annually and adjusted if appropriate.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
Continued

1. cont Accounting policies (continued)

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

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

(i) Non-current assets held for sale Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss. Non-current assets classified as held for sale are available for immediate sale and a resultant disposal is highly probable within one year.

(j) Impairment The carrying amounts of the Group's assets, other than inventories (see accounting policy k) and deferred tax assets (see accounting policy p), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill the recoverable amount is estimated at each balance sheet date. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The impact of the current year impairment review can be seen in note 11.

NOTES TO THE FINANCIAL STATEMENTS
Continued

1. cont **Accounting policies (continued)**

(k) Inventories

(i) Consignment vehicles are regarded as being effectively under the control of the Group and are included within inventories on the balance sheet as the Group has the significant risks and rewards of ownership even though legal title has not yet passed. The corresponding liability is included in trade and other payables.

(ii) Motor vehicles (including consignment and demonstrator vehicles) and parts inventories are stated at the lower of cost and fair value less costs to sell. Parts inventories are based on an average purchase cost principle and are written down to net realisable value by providing for obsolescense on a time in stock based formula approach.

(l) Trade and other receivables Trade and other receivables are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses.

(m) Trade and other payables Trade and other payables are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses.

(n) 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.

(o) Provisions A provision is recognised if as a result of a past event the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Warranty service provision: A provision for warranties is recognised when the warranty service is sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Vacant property provision: A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(p) Income tax Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, recognising temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

NOTES TO THE FINANCIAL STATEMENTS
Continued

1. cont Accounting policies (continued)

(q) Discontinued operations A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

(r) Earnings per share The Group presents basic and diluted earnings per share (eps) data for its ordinary shares. Basic eps is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted eps is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise of share options granted to employees.

(s) Foreign currencies
(i) Foreign currency transactions. Transactions in foreign currencies are translated to the respective functional currency of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Financial statements of foreign operations. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions.

(iii) Net investment in foreign operations. Foreign currency differences arising on the retranslation of a financial liablity designated as a hedge of a net investment in a foreign operation are recognised directly in equity, in the foreign currency translation reserve, to the extent the hedge is effective. To the extent the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the cumulative amount in equity is transferred to profit and loss on disposal.

In respect of all foreign operations, any differences that have arisen after 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity.

(t) Financial instruments The Group holds derivative financial instruments to hedge currency and interest risks arising from its activities.
Derivative financial instruments are recognised at fair value. Any gain or loss on remeasurement is recognised in the income statement. However, the treatment of gains or losses arising from derivatives which qualify for hedge accounting depends on the type of hedge arrangement. The fair value of derivatives is the estimated amount receivable or payable to terminate the contract determined by reference to the market prices prevailing at the balance sheet date.

Hedging
(i) Fair value hedges
Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised within finance costs or finance income, as appropriate, in the income statement. The 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 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.

NOTES TO THE FINANCIAL STATEMENTS
Continued

1. cont Accounting policies (continued)

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.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expires. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged and cancelled. See also policy (n) and (o) above.

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

(u) Interest-bearing borrowings Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. The effective interest basis is a method of calculating the amortised cost of a financial liability and of allocating interest payments over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

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

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

(w) Employee benefits – pension obligations The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in independent trustee administered funds. Pension accounting costs for defined benefit plans are assessed by determining the pension obligation using the projected unit credit method after including a credit for the expected return on plan assets separately for each plan. Under this method, in accordance with the advice of qualified actuaries, the amounts charged in respect of employee benefits reflect the cost of benefits accruing in the year and the cost of financing historical accrued benefits. The Group recognises all actuarial gains and losses arising from defined benefit plans in the statement of recognised income and expense immediately.

The present value of pension obligations is measured by reference to market yields on high quality corporate bonds which have terms to maturity approximating to the terms of the related pension liability. Plan assets are measured at fair value. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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

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

NOTES TO THE FINANCIAL STATEMENTS
Continued

1. cont Accounting policies (continued)

(x) Employee benefits – Share based payments The Group operates a number of employee share option schemes. The fair value at the date at which the share options are granted is recognised in the income statement on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised. In accordance with the transitional provisions of IFRS 2, no income statement expenses are recorded in respect of grants of share options made prior to 7 November 2002.

(y) Leases Leases are classified as finance leases wherever the lease transfers substantially all the risks and rewards of ownership to the Group. All other leases are treated as operating leases.

Assets held under finance leases are recorded at inception at the lower of the fair value of the asset and the present value of the minimum payments required to be made under the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is recorded as a finance lease obligation. The finance charge element of rentals paid under these leases is expensed so as to give a constant rate of finance charge on the remainder of the obligation. Finance charges are expensed in the income statement and the capitalised leased asset is depreciated over the shorter of the lease term and the asset's useful economic life.

Rentals paid under operating leases are charged directly to the income statement on a straight line basis over the period of the lease. Leases subject to predetermined fixed rental uplifts have their rentals accounted for on a straight line basis recognised over the life of the lease. Lease incentives received and paid are recognised in the income statement as an integral part of the total lease expense over the term of the lease.

(z) Dividends Final dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the AGM. Interim dividends are recognised when they are paid.

(aa) Capitalisation of finance costs Gross finance costs directly attributable to the construction of property, plant and equipment are capitalised as part of the cost of those assets until such a time as the assets are substantially ready for their intended use or sale.

(ab) Segment reporting A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographic segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The Group's primary format for segmental reporting is based on business segments, determined based on the Group's management and internal reporting structure.

(ac) 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.

(ad) 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:

IFRIC 11 which refers to 'IFRS 2 Group and Treasury Share Transactions' which requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction. There has been no impact upon the financial statements.

IFRIC 13 'Customer Loyalty Programmes' addresses the accounting by entities who operate customer loyalty programmes with their customers which offer free or discounted goods on redemption of credits. IFRIC 13 has not had any impact on the consolidated financial statements.

IAS 23 Revised 'Borrowing costs' removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as a cost of that asset. The Group already capitalise borrowing costs as described above in (aa).

NOTES TO THE FINANCIAL STATEMENTS
Continued

1. cont Accounting policies (continued)

IFRIC 14 'IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. The adoption of IFRIC 14 required retrospective recognition and comparatives have been restated accordingly.

The adoption of IFRIC 14 had the following impact on these financial statements:

Consolidated Statement of Recognised Income and Expense	**2008 £m**	2007 £m
Increase / (decrease) in net income recognised directly in equity	**30.3**	(23.6)
Increase / (decrease) in total recognised income and expense for the year	**30.3**	(23.6)

Consolidated Balance Sheet	**2008 £m**	2007 £m	2006 £m
Cumulative decrease in retirement benefit obligations	**(2.9)**	(45.0)	(12.5)
Cumulative increase in deferred tax asset	**0.8**	12.6	3.7
Cumulative decrease in retained earnings	**(2.1)**	(32.4)	(8.8)

There is no impact on the Consolidated Income Statement and consequently no impact on earnings per share measurements.

The adoption of these interpretations has led to a change in the Group's accounting policies in respect of employee benefits - pension obligations referred to in policy (w) above.

The following standards and interpretations have been published, endorsed by the EU, and are available for early adoption but have not yet been applied by the Group in these financial statements:

IFRS 8 'Operating segments' introduces the 'management approach' to segment reporting. This will require the disclosure of segmental information based on the internal reports regularly reviewed by the board in order to assess each segment's performance and allocate resources to them. IFRS 8 becomes effective for the Group's 2009 financial statements. This standard amends the requirements for disclosure of segmental performance and will not have any effect on the Group's overall reported results.

IFRS 8 requires entities to adopt the 'management approach' to reporting the financial performance of its operating segments similar to the requirements under the US standard SFAS 131, 'Disclosures about Segments of an Enterprise and Related Information'. The amount of each operating segment item to be reported is the measure reported to the chief operating decision maker, which in some instances will be non-GAAP. IFRS 8 will require the Group to provide an explanation of the basis on which the segment information is prepared and a reconciliation to the amount recognised in the Group's consolidated financial statements. The Group is currently assessing the impact of these amendments on its presentation of the financial statements.

Revised IAS 1 'Presentation of Financial Statements (2007)' introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. The new statement of comprehensive income may be presented as either a single statement of comprehensive income which combines the requirements of the existing income statement and statement of recognised income and expense, or in an income statement and a separate statement of comprehensive income. Revised IAS1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have an impact on the presentation of the consolidated financial statements. The Group has yet to decide on whether to present combined or separate statements.

Amendment to IFRS 2 'Share-based Payment - Vesting Conditions and Cancellations' clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group has yet to determine the potential effect of the amendment.

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

IFRIC 12 'Service Concession Arrangements' provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. There will be no impact upon the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Continued

1. cont Accounting policies (continued)

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'. There will be no impact upon the financial statements.

Amendments to IAS 32 'Financial Instruments : Presentation' and IAS 1 'Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation' requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another on a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements are not expected to have any impact on the consolidated financial statements.

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

Amendment to IAS 27 'Consolidated and Separate Financial Statements (2008)' addresses changes in ownership interests in subsidiaries by the Group. The amendments to IAS 27 becomes mandatory for the Group's 2010 consolidated financial statements are not expected to have a significant impact on the consolidated financial statements.

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

2. Segmental analysis

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central items comprise of mainly corporate assets and expenses, loans and borrowings.

Inter-segment transfers and transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Primary reporting format - business segments

The Group comprises the following main business segments:

Stratstone. This segment comprises the Group's luxury car brand encompassing the sale of new and used motor cars and motorbikes, together with associated aftersales activities of service, body repair and parts sales. The operation in the United States of America and the discontinued operation in Germany are both reported within the Stratstone segment.

Evans Halshaw. This segment comprises the Group's volume car brand encompassing the sale of new and used motor cars, together with associated aftersales activities of service, body repair and parts sales.

Chatfields. This segment comprises the Group's truck and commercial vans brand encompassing the sale of new and used trucks and commercial vehicles, together with associated aftersales activities of service, body repair and parts sales.

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

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

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

2. cont Segmental analysis (continued)

Year ended 31 December 2007

	Stratstone £m	Evans Halshaw £m	Chatfields £m	Contracts £m	Parts £m	Technology £m	Central £m	**Consolidated £m**	Less Germany Discontinued £m	**Continuing Operations £m**
New vehicle revenue	1,010.9	1,648.5	133.1	-	-	-	-	**2,792.5**	(9.9)	**2,782.6**
Used vehicle revenue	863.2	772.7	14.2	-	-	-	-	**1,650.1**	(7.4)	**1,642.7**
Aftersales revenue	215.8	245.4	48.3	-	-	-	-	**509.5**	(3.0)	**506.5**
Contract hire and support revenue	-	-	-	47.2	81.1	32.5	-	**160.8**	-	**160.8**
Total gross segment revenue	2,089.9	2,666.6	195.6	47.2	81.1	32.5	-	**5,112.9**	(20.3)	**5,092.6**
Inter-segment revenue	-	-	-	(18.2)	(26.3)	(24.0)	-	**(68.5)**	-	**(68.5)**
Revenue from external customers	2,089.9	2,666.6	195.6	29.0	54.8	8.5	-	**5,044.4**	(20.3)	**5,024.1**
Operating profit before other income and non-recurring items	35.3	35.6	5.0	10.3	5.4	8.1	-	**99.7**	1.6	**101.3**
Other income and non-recurring items	(2.0)	(5.0)	(0.2)	-	-	-	11.2	**4.0**	0.5	**4.5**
Operating profit	33.3	30.6	4.8	10.3	5.4	8.1	11.2	**103.7**	2.1	**105.8**
Finance costs - net								**(60.1)**	-	**(60.1)**
Share of profit of joint venture								**0.8**	-	**0.8**
Profit before income tax								**44.4**	2.1	**46.5**
Income tax expense								**(3.3)**	-	**(3.3)**
Profit for year								**41.1**	2.1	**43.2**

	Stratstone £m	Evans Halshaw £m	Chatfields £m	Contracts £m	Parts £m	Technology £m	Central £m	**Consolidated £m**	Less Germany Discontinued £m	**Continuing Operations £m**
Other items included in the income statement are as follows:										
Depreciation	9.1	17.2	0.8	29.0	0.2	2.2	-	**58.5**	(0.2)	**58.3**
Amortisation	0.4	0.4	-	-	-	-	-	**0.8**	-	**0.8**
Impairment of goodwill	1.8	5.0	-	-	-	-	-	**6.8**	-	**6.8**
Operating losses incurred on closed businesses	2.0	5.0	0.2	-	-	-	-	**7.2**	-	**7.2**

NOTES TO THE FINANCIAL STATEMENTS

Continued

2. cont Segmental analysis (continued)

Year ended 31 December 2008

	Stratstone £m	Evans Halshaw £m	Chatfields £m	Contracts £m	Parts £m	Technology £m	Central £m	**Consolidated £m**	Less Germany Discontinued £m	**Continuing Operations £m**
New vehicle revenue	673.2	1,454.0	117.0	-	-	-	-	**2,244.2**	-	**2,244.2**
Used vehicle revenue	651.6	596.7	11.5	-	-	-	-	**1,259.8**	-	**1,259.8**
Aftersales revenue	181.8	220.5	46.0	-	-	-	-	**448.3**	-	**448.3**
Contract hire and support revenue	-	-	-	39.6	76.8	25.9	-	**142.3**	-	**142.3**
Total gross segment revenue	1,506.6	2,271.2	174.5	39.6	76.8	25.9	-	**4,094.6**	-	**4,094.6**
Inter-segment revenue	-	-	-	(23.1)	(28.8)	(17.2)	-	**(69.1)**	-	**(69.1)**
Revenue from external customers	1,506.6	2,271.2	174.5	16.5	48.0	8.7	-	**4,025.5**	-	**4,025.5**
Operating profit before other income and non-recurring items	(1.1)	6.1	3.6	8.7	1.5	7.0	-	**25.8**	-	**25.8**
Other income and non-recurring items	(56.9)	(33.0)	(13.2)	(8.8)	-	-	(50.0)	**(161.9)**	-	**(161.9)**
Operating (loss)/profit	(58.0)	(26.9)	(9.6)	(0.1)	1.5	7.0	(50.0)	**(136.1)**	-	**(136.1)**
Finance costs - net								**(60.5)**	-	**(60.5)**
Share of profit of joint venture								**(4.0)**	-	**(4.0)**
Loss before income tax								**(200.6)**	-	**(200.6)**
Income tax credit								**40.5**	-	**40.5**
Loss for year								**(160.1)**	-	**(160.1)**

	Stratstone £m	Evans Halshaw £m	Chatfields £m	Contracts £m	Parts £m	Technology £m	Central £m	**Consolidated £m**	Less Germany Discontinued £m	**Continuing Operations £m**
Other items included in the income statement are as follows:										
Depreciation	8.4	11.6	0.7	34.3	-	0.6	-	**55.6**	-	**55.6**
Amortisation	0.3	0.4	-	-	-	-	-	**0.7**	-	**0.7**
Share based payments	0.1	0.1	-	-	-	-	-	**0.2**	-	**0.2**
Impairment of goodwill	33.5	16.3	5.8	2.5	-	-	-	**58.1**	-	**58.1**
Impairment of property, plant and equipment	4.5	2.0	-	6.3	-	-	2.4	**15.2**	-	**15.2**
Operating losses and closure costs incurred on closed businesses	8.5	7.6	-	-	-	-	3.6	**19.7**	-	**19.7**
Impairment of assets held for sale	-	-	-	-	-	-	11.9	**11.9**	-	**11.9**
Redundancy costs	-	-	-	-	-	-	5.4	**5.4**	-	**5.4**
Inventory write down	10.4	7.1	7.4	-	-	-	-	**24.9**	-	**24.9**
Professional fees	-	-	-	-	-	-	1.5	**1.5**	-	**1.5**
VAT assesssment provision	-	-	-	-	-	-	26.8	**26.8**	-	**26.8**
Exceptional VAT refund - net of costs	-	-	-	-	-	-	(6.8)	**(6.8)**	-	**(6.8)**

NOTES TO THE FINANCIAL STATEMENTS
Continued

2. cont Segmental analysis (continued)

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Stratstone £m	Evans Halshaw £m	Chatfields £m	Contracts £m	Parts £m	Technology £m	Central £m	**Consolidated £m**	Less Germany Discontinued £m	**Continuing Operations £m**
Assets	657.8	873.6	69.2	166.9	21.3	3.2	74.5	**1,866.5**	(2.9)	**1,863.6**
Joint venture	-	-	-	-	-	-	4.0	**4.0**	-	**4.0**
Gross assets	657.8	873.6	69.2	166.9	21.3	3.2	78.5	**1,870.5**	(2.9)	**1,867.6**
Gross liabilities	(272.6)	(344.0)	(47.8)	(150.3)	(8.1)	(1.9)	(349.1)	**(1,173.8)**	4.3	**(1,169.5)**
Operating assets	385.2	529.6	21.4	16.6	13.2	1.3	(270.6)	**696.7**	1.4	**698.1**
Current taxation								**(13.5)**	-	**(13.5)**
Deferred taxation								**(44.0)**	-	**(44.0)**
Net borrowings								**(332.0)**	-	**(332.0)**
Net assets								**307.2**	1.4	**308.6**
Capital expenditure	49.1	35.6	1.2	75.7	0.2	3.7	-	**165.5**	(0.6)	**164.9**

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

	Stratstone £m	Evans Halshaw £m	Chatfields £m	Contracts £m	Parts £m	Technology £m	Central £m	**Consolidated £m**	Less Germany Discontinued £m	**Continuing Operations £m**
Assets	582.1	663.5	70.6	52.2	18.1	20.6	130.5	**1,537.6**	-	**1,537.6**
Joint venture	-	-	-	-	-	-	-	**-**	-	**-**
Gross assets	582.1	663.5	70.6	52.2	18.1	20.6	130.5	**1,537.6**	-	**1,537.6**
Gross liabilities	(353.1)	(347.0)	(49.5)	(14.2)	(7.3)	(21.9)	(254.6)	**(1,047.6)**	-	**(1,047.6)**
Operating assets	229.0	316.5	21.1	38.0	10.8	(1.3)	(124.1)	**490.0**	-	**490.0**
Current taxation								**(19.8)**	-	**(19.8)**
Deferred taxation								**(4.0)**	-	**(4.0)**
Net borrowings								**(357.3)**	-	**(357.3)**
Net assets								**108.9**	-	**108.9**
Capital expenditure	26.3	34.3	1.0	90.4	0.1	0.1	-	**152.2**	-	**152.2**

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

NOTES TO THE FINANCIAL STATEMENTS
Continued

2. cont Accounting policies (continued)

Secondary reporting format - geographic segments

The Group's business segments operate in two main geographical areas and are managed on a worldwide basis. These segments are the UK and the USA. Due to the immaterial nature of the operations in the USA no further analysis is provided.

3. Net operating expenses and non-recurring items

	2008 £m	2007 £m
Net operating expenses:		
Distribution costs	**(295.5)**	(363.9)
Administrative expenses	**(386.3)**	(222.0)
Exceptional VAT refund	**6.8**	-
Rents received	**0.9**	0.5
	(674.1)	(585.4)

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.

	2008 £m	2007 £m
Within operating expenses:		
Goodwill impairment	**(58.1)**	(6.8)
Impairment of property, plant and equipment	**(15.2)**	-
Operating losses incurred on closed businesses	**(19.7)**	(7.2)
Impairment of assets held for sale	**(11.9)**	-
Redundancy costs	**(5.4)**	-
Inventory write down	**(24.9)**	-
Professional fees	**(1.5)**	-
VAT assessment provision	**(26.8)**	-
Exceptional VAT refund - net of costs	**6.8**	-
	(156.7)	(14.0)
Within other income - (losses) / gains on the sale of businesses and property:		
Gains on the sale of businesses	**0.9**	1.1
(Losses) / gains on the sale of property	**(6.1)**	17.4
	(5.2)	18.5
Within finance expense:		
Refinancing related professional costs and bank waiver fees	**(11.2)**	-
Within finance income:		
Interest received on VAT refund	**8.3**	-
Within share of (loss) / profit before tax from joint venture:		
Impairment of investment in joint venture	**(6.2)**	-

NOTES TO THE FINANCIAL STATEMENTS
Continued

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

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

Goodwill impaired during the year was £58.1m (2007: £6.8m) (see note 11).

Group tangible fixed assets and assets held for sale have been reviewed for possible impairments in the light of economic conditions, in particular the significant fall in commercial property prices. As a result of this review, an impairment charge of £8.9m has been recognised against tangible fixed assets (2007: £nil) and £11.9m against assets held for sale (2007: £nil).

Losses incurred on the closure of business amounted to £19.7m (2007: £7.2m). These costs include wind down expenses, losses on assets, redundancy and vacant property occupancy costs.

The Group also undertook a significant programme of redundancies in its core businesses in light of market conditions as a result of the current economic situation, resulting in non-recurring payments of £5.4m (2007: £nil).

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

The Group is in continuing discussion with HM Revenue and Customs over the treatment of partial exemption within our finance and insurance operations and the VAT treatment of sales of vehicles to certain disabled customers. We have received VAT assessments in respect of these issues, and received advice that it is possible that the Group will not be succcessful defending these claims. Whilst we are continuing to defend our position vigorously, we have recognised a provision of £26.8m for our best estimate of amounts payable in respect of these two issues, including potential interest and penalties.

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

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

Other income, being the profit on disposal of businesses and property comprises £0.9m profit on the disposal of motor vehicle dealerships (2007: £1.1m) and a £6.1m loss on sale of properties (2007: £17.4m profit).

During the year the Group has incurred a fee of £2.9m in respect of deferral of covenant measurements at the year end as part of the bank refinancing negotiations. Under IAS 39, this amount should be treated as modification of terms of the loan and as such be amortised over the life of the loan using the effective interest rate method. Management consider there is no future economic benefit derived from this payment as it relates only to the deferral of covenant measurements at December 2008 and as such have recorded this amount directly in the income statement as a non-recurring item. In addition the non-recurring professional fees and costs of £8.3m in respect of the refinancing of the Group have been expensed in the year and presented as a non-recurring item.

NOTES TO THE FINANCIAL STATEMENTS
Continued

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

The following items have been charged to the income statement as operating expenses during the year:		Continuing operations 2008 £m	Continuing operations 2007 £m	Discontinued operations 2008 £m	Discontinued operations 2007 £m	Total 2008 £m	Total 2007 £m
Depreciation of property, plant and equipment	- owned	**53.9**	55.8	**-**	0.2	**53.9**	56.0
	- held under finance leases	**1.7**	2.5	**-**	-	**1.7**	2.5
Impairment of property, plant and equipment		**15.2**	-	**-**	-	**15.2**	-
Impairment of assets held for sale		**11.9**	-	**-**	-	**11.9**	-
Amortisation of internally generated intangible assets		**0.3**	0.1	**-**	-	**0.3**	0.1
Amortisation of other intangible assets		**0.4**	0.7	**-**	-	**0.4**	0.7
Impairment of goodwill		**58.1**	6.8	**-**	-	**58.1**	6.8
Cost of inventories recognised as an expense		**3,553.2**	4,314.1	**-**	17.8	**3,553.2**	4,331.9
Research and development costs		**0.7**	0.3	**-**	-	**0.7**	0.3
Operating lease rentals payable	- hire of plant and machinery	**2.4**	3.3	**-**	-	**2.4**	3.3
	- property rentals	**43.8**	44.6	**-**	0.5	**43.8**	45.1

Auditors' remuneration:	2008 £000	2007 £000
Audit of these financial statements	**287.2**	169.3
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**298.8**	225.4
Other services supplied pursuant to such legislation	**30.0**	25.0
Other services relating to taxation	**289.6**	106.9
Pension valuation and actuarial services	**-**	575.2
Services relating to corporate finance transactions entered into (including debt refinancing)	**1,844.8**	-
All other services	**-**	87.8
	2,750.4	1,189.6

Of the above, £nil (2007: £nil) in relation to the corporate finance transactions entered into has been capitalised as part of the costs relating to these transactions. £490,000 of corporate finance transactions were contracted for at the year end.

4. Employees

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

	2008 Number	2007 Number
Sales	**3,760**	4,743
Aftersales	**5,742**	7,006
Administration	**3,177**	3,998
	12,679	15,747

Costs incurred in respect of these employees were:

	2008 £m	2007 £m
Wages and salaries	**291.9**	346.1
Social security costs	**28.0**	33.0
Contributions to defined contribution plans	**4.4**	5.3
Decrease in liability for defined benefit plans	**(4.0)**	(4.2)
Share based payments	**0.2**	-
	320.5	380.2

NOTES TO THE FINANCIAL STATEMENTS
Continued

5. Directors

Total emoluments of directors (including pension contributions) amounted to £1.7m (2007 : £2.0m).

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 32 to 39.

6. Results of discontinued operation

	2008 £m	2007 £m
Revenue	**-**	20.3
Expenses	**-**	(21.9)
Results from operating activities	**-**	(1.6)
Income tax expense	**-**	-
Results from operating activities net of income tax	**-**	(1.6)
Loss on sale of discontinued operation	**-**	(0.5)
Loss for the period	**-**	(2.1)

During the previous year, on 30 June 2007 the Group sold the trading assets of all its German based motor vehicle dealerships. The German operation contributed a cash outflow of £2.9m to the Group's net operating cash flows and contributed £5.2m in respect of investing activities during 2007. There were no financing cash flows.

7. Finance expense

Recognised in profit and loss	**2008 £m**	2007 £m
Interest payable on bank borrowings	**20.4**	19.1
Interest payable on loan notes	**9.6**	9.4
Debt issuance costs	**0.9**	1.1
Refinancing related professional costs and bank waiver fees	**11.2**	-
Vehicle stocking plan interest	**28.5**	32.9
Interest payable on finance leases	**0.5**	0.6
Interest on pension scheme obligations	**18.7**	17.9
Less: interest capitalised	**(0.1)**	(0.1)
Total interest expense	**89.7**	80.9
Fair value losses - interest rate swaps	**0.1**	0.1
Unwinding of discounts in contract hire residual values	**4.4**	2.5
Total finance expense	**94.2**	83.5

Interest expense in respect of financial liabilities held at amortised cost	**80.1**	71.5
Interest expense in respect of financial liabilities held at fair value	**9.6**	9.4
Fair value losses - interest rate swaps	**0.1**	0.1
Unwinding of discounts in contract hire residual values	**4.4**	2.5
Total finance expense	**94.2**	83.5

Interest of £0.1m (2007: £0.1m) has been capitalised during the year at an average rate of 5.49% (2007: 6.52%) on assets under construction.

NOTES TO THE FINANCIAL STATEMENTS
Continued

8. Finance income

Recognised in profit and loss	2008 £m	2007 £m
Interest receivable on bank deposits	**2.7**	1.3
Interest on pension scheme assets	**22.7**	22.1
Exceptional interest income on VAT refund (note 3)	**8.3**	-
Total finance income	**33.7**	23.4

9. Taxation

	2008 £m	2007 £m
UK corporation tax:		
Current tax on (loss) / profit for the year	**(5.1)**	9.5
Adjustments in respect of prior periods	**(3.7)**	(10.7)
	(8.8)	(1.2)
Overseas taxation:		
Current tax on income for the year	**-**	0.4
	-	0.4
Total current tax credit	**(8.8)**	(0.8)
Deferred tax (credit) / expense:		
Origination and reversal of temporary differences	**(10.2)**	4.1
Benefit of tax losses recognised	**(21.5)**	-
	(40.5)	3.3

The total aggregate tax (credits) / charges recognised in the income statement are analysed as:	2008 £m	2007 £m
Current tax	**(8.8)**	(0.8)
Deferred tax	**(31.7)**	4.1
Total income tax (credit) / expense in the income statement	**(40.5)**	3.3

NOTES TO THE FINANCIAL STATEMENTS
Continued

9. cont Taxation (continued)

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

The tax assessed is different from the standard rate of corporation tax in the UK (28.5% (2007: 30%))

The differences are explained below:	**2008 £m**	2007 £m
Loss / (profit) before taxation:		
Continuing operations	**(200.6)**	46.5
Discontinued operations	**-**	(2.1)
	(200.6)	44.4
Tax on (loss) / profit at UK rate of 28.5% (2007: 30%)	**(57.2)**	13.3
Differences:		
Tax effect of share of results from joint venture	**1.1**	(0.2)
Accounting depreciation for which no tax relief is due	**0.6**	0.1
Difference between accounts profits and taxable profits on capital asset disposals	**0.3**	(1.4)
Other disallowables	**1.3**	0.4
Unrecognised losses	**0.2**	0.7
Tax rate differential on overseas income	**(0.2)**	0.1
Movement in rolled over and held over chargeable gains	**(0.1)**	-
Asset impairment charge	**16.6**	2.1
Impact of Finance Act 2007 changes	**0.6**	(7.7)
Adjustments to tax charge in respect of previous periods	**(3.7)**	(4.1)
Total tax (credit) / charge	**(40.5)**	3.3

The impact of the Finance Act 2007 changes are:	**2008 £m**	2007 £m
Removal of balancing adjustments on disposal of Industrial Buildings	**-**	3.7
Reduction in the tax rate from April 2008 onwards from 30% to 28% (see factors affecting future tax charge below)	**(0.6)**	4.0
	(0.6)	7.7

Deferred tax (expense) / credit recognised directly in equity

	2008 £m	restated * 2007 £m
Relating to share based payments	**-**	(2.0)
Actuarial gains and losses	**8.3**	0.4
	8.3	(1.6)

Tax rate

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

Factors affecting the future tax charge

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

NOTES TO THE FINANCIAL STATEMENTS
Continued

9. cont **Taxation (continued)**

Unrecognised deferred tax assets

There are unutilised tax losses within the group of £18.6m (2007: £17.9m) 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:

	2008 £m	restated* 2007 £m
Deferred tax assets	**25.1**	-
Deferred tax liabilities	**(29.1)**	(44.0)
	(4.0)	(44.0)

A deferred tax asset has been recognised in respect of tax loses carried forward at 31 December 2008 as it is expected that the Group will generate sufficient taxable profits in the foreseeable future for these tax losses to be utilised against.

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

	At 1 January 2007 £m	Charged / (credited) to consolidated income statement £m	Credited to equity £m	restated* **At 31 December 2007 £m**
Property, plant and equipment	58.6	(8.8)	-	**49.8**
Rolled over and held over gains	9.9	2.9	-	**12.8**
Retirement benefit obligations	(26.2)	9.6	(0.4)	**(17.0)**
Share based payments	(2.0)	-	2.0	**-**
Financial instruments	(0.2)	-	-	**(0.2)**
Provisions	(1.8)	0.4	-	**(1.4)**
Tax liabilities	38.3	4.1	1.6	**44.0**

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

	At 1 January 2008 £m	Charged / (credited) to consolidated income statement £m	Credited to equity £m	**At 31 December 2008 £m**
Property, plant and equipment	49.8	(16.8)	-	**33.0**
Rolled over and held over gains	12.8	(1.0)	-	**11.8**
Retirement benefit obligations	(17.0)	6.8	(8.3)	**(18.5)**
Financial instruments	(0.2)	-	-	**(0.2)**
Provisions	(1.4)	0.8	-	**(0.6)**
Losses	-	(21.5)	-	**(21.5)**
Tax liabilities / (assets)	44.0	(31.7)	(8.3)	**4.0**

* See change of accounting policy - note 1ad.

NOTES TO THE FINANCIAL STATEMENTS
Continued

10. Earnings per share

	2008 Earnings per share pence	2008 Earnings Total £m	2007 Earnings per share pence	2007 Earnings Total £m
Basic earnings per share - continuing operations	**(25.2)**	**(160.1)**	6.8	43.2
Basic earnings per share - discontinued operations	**-**	**-**	(0.3)	(2.1)
Basic earnings per share	**(25.2)**	**(160.1)**	6.5	41.1
Adjusting items:				
Goodwill impairment	**9.1**	**58.1**	1.1	6.8
Impairment of investment in joint venture	**1.0**	**6.2**	-	-
Impairment of property, plant and equipment	**2.4**	**15.2**	-	-
Impairment of assets held for sale	**1.9**	**11.9**	-	-
Losses incurred on closed businesses	**3.1**	**19.7**	1.1	7.2
Redundancy costs	**0.9**	**5.4**	-	-
Exceptional VAT refund	**(1.1)**	**(6.8)**	-	-
Loss / (profit) on business and property disposals	**0.8**	**5.2**	(2.8)	(18.0)
Refinancing related professional costs and bank waiver fees	**1.8**	**11.2**	-	-
Professional fees	**0.2**	**1.5**	-	-
VAT assessment provision	**4.2**	**26.8**	-	-
Inventory write down	**3.9**	**24.9**	-	-
Interest received on VAT refund	**(1.3)**	**(8.3)**	-	-
Exceptional deferred tax credit (see note 9)	**-**	**-**	(1.2)	(7.7)
Tax effect of adjusting items	**(4.7)**	**(30.1)**	0.3	1.8
Adjusted earnings per share	**(3.0)**	**(19.2)**	5.0	31.2
Diluted earnings per share - continuing operations	**(25.2)**	**(160.1)**	6.7	43.2
Diluted earnings per share - total	**(25.2)**	**(160.1)**	6.4	41.1
Diluted earnings per share - adjusted	**(3.0)**	**(19.2)**	5.0	31.2

The calculation of basic, adjusted and diluted earnings per share is based on the following number of shares in issue (millions)	2008 Number	2007 Number
Weighted average number of ordinary shares in issue	**636.1**	635.2
Weighted average number of dilutive shares under option	**-**	6.6
Weighted average number of shares in issue taking account of applicable outstanding share options	**636.1**	641.8

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

There are 3.1m shares under option (2007: 3.0m) that are non dilutive in accordance with IAS 33 'Earnings Per Share'.

NOTES TO THE FINANCIAL STATEMENTS

Continued

11. Intangible assets

	Goodwill £m	Development costs £m	Other intangibles £m	**Total £m**
Cost				
At 1 January 2007	437.7	-	12.7	**450.4**
Additions through business combinations	1.3	-	-	**1.3**
Other additions	-	1.1	0.8	**1.9**
Exchange adjustments	(0.2)	-	-	**(0.2)**
Disposals	(0.9)	-	(0.4)	**(1.3)**
At 31 December 2007	437.9	1.1	13.1	**452.1**
At 1 January 2008	437.9	1.1	13.1	**452.1**
Other additions	-	0.8	0.3	**1.1**
Exchange adjustments	4.8	-	-	**4.8**
Disposal of businesses	(0.6)	-	-	**(0.6)**
Other disposals	(0.3)	-	(0.4)	**(0.7)**
At 31 December 2008	441.8	1.9	13.0	**456.7**
Amortisation				
At 1 January 2007	3.9	-	11.3	**15.2**
Amortised during the year	-	0.1	0.7	**0.8**
Impairment	6.8	-	-	**6.8**
At 31 December 2007	10.7	0.1	12.0	**22.8**
At 1 January 2008	10.7	0.1	12.0	**22.8**
Amortised during the year	-	0.3	0.4	**0.7**
Exchange adjustments	0.8	-	-	**0.8**
Impairment	58.1	-	-	**58.1**
Disposals	-	-	(0.3)	**(0.3)**
At 31 December 2008	69.6	0.4	12.1	**82.1**
Carrying amounts				
At 1 January 2007	433.8	-	1.4	**435.2**
At 31 December 2007	427.2	1.0	1.1	**429.3**
At 1 January 2008	427.2	1.0	1.1	**429.3**
At 31 December 2008	372.2	1.5	0.9	**374.6**

NOTES TO THE FINANCIAL STATEMENTS
Continued

11. cont Intangible assets (continued)

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

Development costs are amortised over a period of five years. These constitute expenditure on development of the Group's software products that is capitalised as incurred. Software is amortised over a period of four years.

Impairment losses of £14.9m of goodwill attaching to business units pending closure where the future cash flows from these are not expected to recover the goodwill carrying value are recognised within operating expenses in the income statement (2007: £6.8m). In addition, on review of the future cashflows of the business and primarily due to the current performance of the Group, the directors do not expect to recover the carrying value of the goodwill attached to a number of CGUs (cash generating units). Therefore an impairment charge of £43.2m was recognised within operating expenses in the income statement (2007: £nil).

Goodwill is allocated across multiple cash generating units which are franchise groups and other business units and consequently a consistent approach in assessing the carrying value of this amount is taken. This value was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

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

Whilst it is anticipated that the units will grow revenues in the future, for the purpose of the impairment testing, no growth has been assumed beyond the business plan.

A pre-tax discount rate of 13.3% (2007: 5.8%) was applied in determining the recoverable amount of the units which the Group has estimated to be the approximate weighted average cost of capital of the Group. The discount rate used reflects the best estimate by the directors of the rate reflective of the risks specific to all cash generating units for which the future cash estimates have not been adjusted. A key assumption made by the directors lies in the discount rate used, an increase in the pre-tax discount rate of 1% would cause an increase in the impairment by £7.2m.

Goodwill by segment	**2008 £m**	2007 £m
Stratstone	**126.5**	156.5
Evans Halshaw	**210.7**	227.5
Chatfields	**12.0**	17.8
Support	**1.0**	0.9
Contract Hire	**22.0**	24.5
	372.2	427.2

NOTES TO THE FINANCIAL STATEMENTS
Continued

12. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	**Total £m**
Cost				
At 1 January 2007	235.1	65.1	216.1	**516.3**
Additions through business combinations	6.8	1.0	-	**7.8**
Other additions	17.8	16.5	131.2	**165.5**
Exchange adjustments	0.2	0.1	-	**0.3**
Disposal of businesses	(3.7)	(1.4)	-	**(5.1)**
Other disposals	(21.1)	(3.7)	(113.5)	**(138.3)**
Classified as non-current assets held for sale	(42.0)	-	-	**(42.0)**
At 31 December 2007	193.1	77.6	233.8	**504.5**
At 1 January 2008	193.1	77.6	233.8	**504.5**
Other additions	14.5	12.8	124.9	**152.2**
Exchange adjustments	7.0	1.6	0.3	**8.9**
Disposal of businesses	(2.6)	(2.0)	(3.1)	**(7.7)**
Other disposals	(8.0)	(17.4)	(154.7)	**(180.1)**
Classified as non-current assets held for sale	(7.9)	-	-	**(7.9)**
At 31 December 2008	196.1	72.6	201.2	**469.9**
Depreciation				
At 1 January 2007	8.2	30.0	57.7	**95.9**
Exchange adjustments	0.1	0.1	-	**0.2**
Charge for the year	3.6	12.7	42.2	**58.5**
Disposal of businesses	(0.7)	(1.3)	-	**(2.0)**
Other disposals	0.3	(1.5)	(29.9)	**(31.1)**
Classified as non-current assets held for sale	(2.1)	-	-	**(2.1)**
At 31 December 2007	9.4	40.0	70.0	**119.4**
At 1 January 2008	9.4	40.0	70.0	**119.4**
Exchange adjustments	0.7	1.0	0.1	**1.8**
Charge for the year	3.6	11.1	40.9	**55.6**
Impairment	8.5	0.4	6.3	**15.2**
Disposal of businesses	(0.2)	(1.1)	(2.1)	**(3.4)**
Other disposals	(0.9)	(8.5)	(45.6)	**(55.0)**
At 31 December 2008	21.1	42.9	69.6	**133.6**
Carrying amounts				
At 1 January 2007	226.9	35.1	158.4	**420.4**
At 31 December 2007	183.7	37.6	163.8	**385.1**
At 1 January 2008	183.7	37.6	163.8	**385.1**
At 31 December 2008	175.0	29.7	131.6	**336.3**

NOTES TO THE FINANCIAL STATEMENTS
Continued

12. cont **Property, plant and equipment (continued)**

Included in the amounts for plant, equipment and motor vehicles above are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

	Land & buildings £m	Plant & equipment £m	Motor vehicles £m	**Total £m**
Depreciation				
Charge for the year	-	-	1.7	**1.7**
Carrying amounts				
At 31 December 2007	0.6	-	7.0	**7.6**
At 31 December 2008	0.3	-	6.1	**6.4**

Cumulative interest charges of £0.5m (2007: £0.5m) have been capitalised as construction costs and included in land and buildings.

Land and buildings include £4.4m (2007: £2.6m) in respect of building projects currently under construction for which no depreciation has been charged during the year.

Future capital expenditure which has been contracted for but not yet provided in the financial statements amounted to £1.4m (2007: £4.7m).

13. **Interest in joint venture**

The Group has a 51% ordinary share capital interest in a joint venture PPH0 Limited, a company that is incorporated and trading in the United Kingdom, whose principal activity is that of a property company. The joint venture is accounted for under the equity accounting method. The directors have made a full provision against the carrying value of the investment, as at the balance sheet date the value of the investment was assessed to have been substantially impaired due to the difficulties faced by PPH0 Limited in adhering to its existing financing covenants.

The Group, whilst holding a 51% holding in the ordinary share capital of PPH0 Limited, holds by way of a contractual agreement 50% of the voting rights attaching to that company, thereby giving the Group joint control.

	2008 £m	2007 £m
Non-current assets	**189.0**	189.0
Current assets	**6.7**	5.7
Current liabilities	**(189.5)**	(190.7)
Share of net assets	**6.2**	4.0
Provision for impairment	**(6.2)**	-
	-	4.0

The Group's share of revenues and expenses of the joint venture included in the income statement is presented:	**2008 £m**	2007 £m
Income	**12.7**	11.8
Expenses	**(10.5)**	(10.6)
Provision for impairment	**(6.2)**	-
Income tax expense	**-**	(0.4)
	(4.0)	0.8

Reconciliation of movement in interest in joint venture

	£m
Interest in joint venture at 31 December 2007	**4.0**
Share of profit after income tax expense	**2.2**
Provision for impairment	**(6.2)**
Interest in joint venture at 31 December 2008	**-**

NOTES TO THE FINANCIAL STATEMENTS
Continued

13. cont Interest in joint venture (continued)

The non-current assets shown above relate to properties held at original cost to the joint venture. An indicative valuation performed on these properties in April 2008 indicated that at that date the value of these properties to the Group was £173.6 million. At that time the joint venture bankers informed PPH0 Limited (the joint venture holding company) that it was in default of the bank facility loan to value covenant and on this basis the entire banking debt has been shown as current in 2008 and in the comparative year.

The directors of PPH0 Limited have concluded that as at 31 December 2008 the carrying value of the properties shown above is impaired, however no adjustment in respect of this impairment has yet been finally agreed or adjusted for in these accounts. The directors of PPH0 Limited have decided to finalise the accounting entries for the joint venture at the relevant time when finalising discussions with its bankers to resolve the covenant default.

However the carrying value of the Group's investment in the joint venture has been fully impaired in 2008 on the grounds that the directors consider the investment to be impaired due to the difficulties faced by the joint venture in adhering to its existing financing covenants and as such the actual booking of any impairment within the joint venture accounts will have no further impact on the Group financial statements.

PPH0 Limited has borrowings secured on its land and buildings.

At 31 December 2008 PPH0 Limited has no contractual capital commitments.

14. Inventories

	2008 £m	2007 £m
New and used vehicles	**517.5**	592.3
Consignment vehicles	**96.2**	141.7
Vehicle parts and other inventories	**42.1**	52.5
	655.8	786.5

Inventories recognised as an expense during the year	**3,553.2**	4,314.1
Inventories stated at net realisable value	**237.8**	0.7
Carrying value of inventories subject to retention of title clauses	**564.8**	600.8

During the year £25.1m was recognised as an expense in respect of the write down of inventories (2007: £0.4m credit).

15. Trade and other receivables

	2008 £m	2007 £m
Trade receivables	**64.9**	116.3
Allowance for doubtful debts	**(1.0)**	(0.5)
	63.9	115.8
Other receivables	**57.3**	77.8
Prepayments	**12.4**	12.3
	133.6	205.9

All amounts are due within one year.

Total trade receivables held by the Group at 31 December 2008 was £63.9m (2007: £115.8m). No trade receivables have been classified as held for sale (2007: £nil).

The average credit period taken on sales of goods is 29 days (2007 : 24 days). No interest is charged on trade receivables. The Group makes an impairment provision for all debts that are considered unlikely to be collected plus a proportion of all debts over 120 days past their due date. At 31 December 2008 trade receivables are shown net of an allowance for impairment of £1.0m (2007: £0.5m). The expense recognised for impairment losses during the year was £0.6m (2007: £0.2m).

NOTES TO THE FINANCIAL STATEMENTS
Continued

15. cont Trade and other receivables (continued)

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 that 5% of the total balance of trade receivables.

The ageing of trade receivables at the reporting date was:	2008 £m	2007 £m
Not past due	**37.0**	80.4
Past due 0-30 days	**19.2**	25.0
Past due 31-120 days	**6.6**	10.0
Past due 120+ days subject to impairment	**2.1**	0.9
	64.9	116.3
Impairment	**(1.0)**	(0.5)
	63.9	115.8

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:	2008 £m	2007 £m
Balance at 1 January	**0.5**	0.3
Utilisation	**(0.1)**	-
Expense recognised	**0.6**	0.2
Balance at 31 December	**1.0**	0.5

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

16. Trade and other payables

	2008 £m	2007 £m
Trade payables	**639.4**	723.3
Consignment vehicle liabilities	**96.2**	141.7
Payments received on account	**8.2**	15.0
Other taxation and social security	**9.3**	11.5
Accruals	**169.4**	189.7
	922.5	1,081.2

As at 31 December 2008, the outstanding commitment to purchase ex-contract vehicles that were not supplied by the Company amounted to £nil (2007: £7.6m). Expected losses in respect of these commitments of £nil (2007 : £2.6m included in accruals).

17. Interest bearing loans and borrowings

	2008 £m	2007 £m
Non-current liabilities		
Unsecured bank loans	**314.7**	185.2
Unsecured loan notes	**148.9**	105.0
Finance lease liabilities (see note 26)	**4.6**	7.0
	468.2	297.2
Current liabilities		
Unsecured bank loans	**78.9**	75.1
Unsecured other loans	**-**	4.0
Finance lease liabilities (see note 26)	**3.3**	2.7
	82.2	81.8

Note 18 sets out the maturity profile of non-current liabilities.

18. Financial instruments and derivatives

Financial risk management

The Group is exposed to the following risks from its use of financial instruments:

Funding and liquidity risk - the risk that the Group will not be able to meet its financial obligations as they fall due.

Credit risk - the risk of financial loss to the Group on the failure of a customer or counterparty to meet its obligations to the Group as they fall due.

Market risk - the risk that changes in market prices, such as interest rates and foreign exchange rates, have on the Group's financial performance.

Due to significant changes in the economic climate experienced in the year the Group has increased its focus on managing credit and liquidity risk. The main actions the Group has taken have been to reduce credit terms to customers, reduce stocks of vehicles and therefore the related payment obligation and increased focus on working capital management. The Group's quantitative exposure to these risks is explained throughout these financial statements whilst the Group's objectives and management of these risks is set out below.

Treasury policy and procedures

Group treasury matters are managed within policy guidelines set by the Board with prime areas of focus being liquidity, interest rate and foreign exchange exposure. Management of these areas is the responsibility of the Group's central treasury function. Derivative financial instruments are utilised to reduce exposure to movements in foreign exchange rates and interest rates. The Board does not permit the speculative use of derivatives.

Funding and liquidity management

The Group is financed primarily by loan notes, bank loans, vehicle stocking credit lines and operating cash flow. Committed facilities have a range of maturities, are maintained at levels in excess of planned requirements and are in addition to short term uncommitted facilities that are also available to the Group.

Each business within the Group is responsible for its own day to day cash management and the overall cash position is monitored on a daily basis by the Group treasury department. Where our overseas subsidiaries borrow to fund their businesses they do so independently of and without recourse to the UK parent company. Liquidity risk of the Group has significantly increased in the current economic climate and, consequently, the Group has refinanced as set out below under "post balance sheet events" and in the operational and business review on pages 2 to 15.

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 is managed by swaps into floating rate.

Interest rate risk sensitivity analysis

As all of the Group's borrowings and vehicle stocking credit lines, after taking into account the effect of swaps, are floating rate instruments they 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. Although this sensitivity analysis is merely illustrative, it should be noted that interest rates varied during 2008 by as much as 350 basis points.

NOTES TO THE FINANCIAL STATEMENTS
Continued

18. cont **Financial instruments and derivatives (continued)**

	Profit / (loss) 2008 £m	Profit / (loss) 2007 £m
100 bps increase	**(7.5)**	(10.2)
Tax effect	**2.1**	3.1
Effect on net assets	**(5.4)**	(7.1)
100 bps decrease	**7.5**	10.2
Tax effect	**(2.1)**	(3.1)
Effect on net assets	**5.4**	7.1

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. Similarly, where the Group borrows in a foreign currency to finance assets denominated in sterling the borrowings are swapped into sterling. In line with these policies the Group has swapped all of its fixed rate loan notes denominated in US dollars into floating rate sterling and has borrowed USD 50.0m (2007: USD 50.0m) against its net assets held in overseas subsidiaries.

Credit risk management

The Group is exposed to credit risk primarily in respect of its trade receivables and financial assets. Trade receivables are stated net of provision for estimated impairment losses. Exposure to credit risk in respect of trade receivables is mitigated by the Group's policy of only granting credit to certain customers after an appropriate evaluation of credit risk. Credit risk arises in respect of amounts due from vehicle manufacturers in relation to bonuses and warranty receivables. This risk is mitigated by the range of manufacturers dealt with, the Group's procedures in effecting timely collection of amounts due and management's belief that it does not expect any manufacturer to fail to meet its obligations. Financial assets comprise cash balances and assets arising from transactions involving derivative financial instruments. The counterparties are banks and, despite the current economic conditions, 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.

Capital management

The Board's policy is to maintain a strong capital base to maintain market confidence and to sustain the development of the business, whilst maximising the return on capital to the Company's shareholders. Under normal conditions, the Group seeks to achieve an increase in earnings per share growth of RPI + 10% per annum and increase dividends each year. The Group attempts to maintain an optimal balance between borrowings and equity and seeks a debt/equity ratio of between 70% and 100% under normal trading conditions. Due to the extreme changes in economic climate, the Group has been unable to achieve these objectives for 2008. After tax return on equity for 2008 was (70.6)% (2007: 12.7%). During a downturn in the UK economy the Board intends to reduce debt by applying any surplus cash against its borrowings rather than to buy back shares or pay dividends.

The Company 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 Company has permission from shareholders to buy back up to 10% of its equity at any one time. The Company may use profits made on surplus property sales to purchase its own shares and cancel them in order to promote growth in earnings per share, or to satisfy share incentives issued to employees of the Group. The Company encourages its employees to be shareholders of the Company with the provision of a sharesave scheme as an all-employee share scheme to 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 Company ensures these requirements are met by injections of equity to the subsidiaries in question, when required.

There were no changes in the approach to the Group's capital management in the year.

NOTES TO THE FINANCIAL STATEMENTS
Continued

18. cont **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 financial institutions utilising market prices prevailing at the balance sheet date.

Hedges

Fair value hedges of interest rate and currency risk

The Group classifies its interest rate and currency swaps as fair value hedges and states them at fair value. The net fair value of swaps used as hedges of the Group's USD and GBP loan notes is set out below:

Fair value hedge	**Assets carrying value & fair value 2008 £m**	**Liabilities carrying value & fair value 2008 £m**	Assets carrying value & fair value 2007 £m	Liabilities carrying value & fair value 2007 £m
Currency and interest swap (USD 110m / GBP: fixed rate to floating rate) expiring 2011	**21.6**	**-**	-	(3.4)
Currency and interest swap (USD 67m / GBP: fixed rate to floating rate) expiring 2014	**15.5**	**-**	-	(2.1)
Interest swap (GBP 17m: fixed rate to floating rate) expiring 2014	**1.4**	**-**	-	(0.1)
Total	**38.5**	**-**	-	(5.6)

All derivative financial instrument assets and liabilities are non-current. The critical terms of the derivative financial instrument and the hedged item match (i.e. currency, notional amount, and timing of rate resets and payments) and therefore changes in the fair value attributable to the risk being hedged are expected to be offset by the hedging derivative financial instrument. Changes in the fair value of the risk being hedged, being changes in the fair value of the loan notes, amounted to £43.9m, which was offset by changes in the fair value of the hedging derivative financial instrument of £44.1m.

Hedges of net investments in overseas operations

Included within bank borrowings are balances denominated in US dollar which are designated as a hedge of the net investment in the Company's US subsidiaries. The aggregate fair value of these borrowings was £34.7m at 31 December 2008. Foreign exchange losses of £9.5m on translation of the borrowings to sterling at the balance sheet date are recognised within the translation differences reserve in equity, net of exchange gains of £8.2m in respect of the net investments being hedged.

Cash and cash equivalents

Bank balances and bank overdrafts set out below are stated net of legal rights of set-off resulting from pooling arrangements operated by individual banks.

	Carrying value & fair value 2008 £m	Carrying value & fair value 2007 £m
Bank balances and cash equivalents	**154.6**	52.6

NOTES TO THE FINANCIAL STATEMENTS
Continued

18. cont Financial instruments and derivatives (continued)

Borrowings

	Carrying value 2008 £m	**Fair value 2008 £m**	Carrying value & fair value 2007 £m
Non-current:			
Bank borrowings	**314.7**	**280.1**	185.2
5.65% USD 110 million loan notes 2011	**79.2**	**79.2**	54.6
5.95% USD 67 million loan notes 2014	**51.0**	**51.0**	33.3
5.95% GBP 17 million loan notes 2014	**18.5**	**18.5**	16.9
Other loan notes	**0.2**	**0.2**	0.2
Finance leases	**4.6**	**4.6**	7.0
Total non-current	**468.2**	**433.6**	297.2
Current:			
Bank borrowings	**78.9**	**70.2**	75.1
Finance leases	**3.3**	**3.3**	2.7
Other loans	**-**	**-**	4.0
Total borrowings	**550.4**	**507.1**	379.0

In order to calculate the fair value of the floating rate borrowings the effective interest rate of the renegotiated bank borrowings (see post balance sheet events below) has been applied to discount the cashflows of the borrowings existing at the year end. It has been assumed that the effective interest rate of the renegotiated bank borrowing would not be significantly different if negotiations had been complete at the year end. 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 2008 and repricing periods, is set out in the table below:

NOTES TO THE FINANCIAL STATEMENTS
Continued

18. cont Financial instruments and derivatives (continued)

	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	**154.6**	Amortised cost	Floating GBP	2.00% - 5.50%	n/a	n/a	6 months or less
Bank overdrafts	**-**	Amortised cost	Floating GBP	3.00% - 6.50%	n/a	n/a	6 months or less
	154.6						
Borrowings							
Non-current:							
Bank borrowings	**280.0**	Amortised cost	Floating GBP	4.66% - 7.66%	n/a	n/a	6 months or less
Bank borrowings	**34.7**	Amortised cost	Floating USD	2.86% - 6.15%	n/a	n/a	6 months or less
5.65% USD 110 million loan notes 2011	**79.2**	Fair value	Fixed USD	5.65%	Floating GBP	8.52% - 9.43%	6 months or less
5.95% USD 67 million loan notes 2014	**51.0**	Fair value	Fixed USD	5.95%	Floating GBP	8.30% - 9.20%	6 months or less
5.95% GBP 17 million loan notes 2014	**18.5**	Fair value	Fixed GBP	6.66%	Floating GBP	8.29% - 9.20%	6 months or less
Other loan notes	**0.2**	Amortised cost	Floating GBP	12.50%	n/a	n/a	n/a
Finance leases	**4.6**	Amortised cost	Fixed GBP	5.29% - 7.15%	n/a	n/a	see note 26
Total non-current	**468.2**						
Current:							
Bank borrowings	**65.0**	Amortised cost	Floating GBP	4.66% - 7.81%	n/a	n/a	6 months or less
Bank borrowings	**13.9**	Amortised cost	Floating USD	3.30% - 6.95%	n/a	n/a	6 months or less
Finance leases	**3.3**	Amortised cost	Fixed GBP	5.29% - 7.15%	n/a	n/a	see note 26
Total borrowings	**550.4**						

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

	2008 £m	2007 £m
Pound sterling	**501.8**	353.8
US dollar	**48.6**	25.2
	550.4	379.0

The maturity of non-current borrowings is as follows:	**2008 £m**	2007 £m
Between one and two years	**314.7**	40.0
Between two and five years	**80.9**	255.0
Over five years	**72.6**	2.2
	468.2	297.2

NOTES TO THE FINANCIAL STATEMENTS
Continued

18. cont Financial instruments and derivatives (continued)

The Group has the following undrawn borrowing facilities	**2008 £m**	2007 £m
Expiring in more than one year but not more than two years	**155.4**	-
Expiring in more than two years	**-**	294.8
	155.4	294.8

The Group has a £510m credit facility, expiring as set out below and USD and GBP loan notes expiring 2011/2014. Both are subject to covenants with respect to debt / EBITDA and fixed charge coverage.

Term loan	Expiry date	**£m**
	June 2009	**20.0**
	December 2009	**20.0**
	June 2010	**20.0**
	December 2010	**100.0**
Total term loan		**160.0**
Revolving credit facility	December 2010	**350.0**
		510.0

Post balance sheet events

Due to the abnormal trading conditions experienced in the year, covenants due to be measured at 31 December 2008 in relation to the £510 million credit facility and USD and GBP loan notes were deferred at a cost of £2.9m. The full £2.9m should under IAS 39 be capitalised and amortised over the remaining life of the loan using the effective interest rate method but has been expensed in the current year income statement given the refinancing activities undertaken as described below.

The Group has since been refinanced and on 30 April 2009 new loan agreements restructuring the existing loans and loan notes have been made as follows:

Term loan	Expiry date	**£m**
	June 2009	**20.0**
	December 2009	**20.0**
	June 2010	**20.0**
	December 2010	**20.0**
	June 2011	**20.0**
	December 2011	**20.0**
	April 2012	**90.0**
Total term loan		**210.0**
Revolving credit facility	April 2012	**210.0**
		420.0

Loan notes	Expiry date	**Fair value at 31 December 2008**	**Fair value net of swaps at 31 December 2008**
5.65% USD 110 million loan notes 2011	April 2012	**79.2**	**57.6**
5.95% USD 67 million loan notes 2014	February 2014	**51.0**	**35.5**
5.95% GBP 17 million loan notes 2014	February 2014	**18.5**	**17.1**
		148.7	**110.2**

The holders of the 2014 loan notes have an option to require payment in April 2012.

NOTES TO THE FINANCIAL STATEMENTS
Continued

18. cont Financial instruments and derivatives (continued)

Terms of refinancing

Margin

Term loan and revolving credit facility: 3.25%, an increase of 2.35% over the margin currently payable.
USD denominated loan notes: a new coupon of 9.310%.
GBP denominated loan notes: a new coupon of 9.834%.
Both of these new coupon rates reflect a blended increase in margin over that currently payable of 2.50% after taking into account the new maturities.
A commitment fee in respect of undrawn amounts is payable at 1.625% of the undrawn amount.

Restructuring fee

1% of the total commitments (term loan, revolving credit facility and loan notes).

Warrants

5% of the issued share capital at 30 April 2009 plus a further 2.5% consequent on shareholder approval (or the cash equivalent of such 2.5% payable on the earlier of maturity or repayment of facilities).

Success and stabilisation fee

At each anniversary of the facility agreements, 1% of the commitments at that date, payable in cash or shares of the Company, or 1.25% if settlement deferred.
At repayment or maturity, 1% of the commitments at that date pro-rata for the period of time elapsed between the final anniversary and the date of repayment or maturity, payable in cash or shares in the Company.
At maturity or repayment, 2.50% of the commitments at that date, payable in cash or shares in the Company.

The estimated cost of the restructuring fee, warrants and success and stabilisation fee will be capitalised from April 2009 as part of the facility balance and are to be amortised over the life of the loan using the effective interest rate. Total estimated fees capitalised at April 2009 are £35m.

Covenants

The new facilities are subject to covenants with respect to debt / EBITDA, absolute EBITDA and fixed charge cover.

Security

The Group has granted security over certain of its assets, not subject to any other arrangements, mainly comprising property, debtors and certain vehicle stocks. If security over these assets had been granted at 31 December 2008, the balance sheet value of those assets would have been £540m.

Professional fees and other items expensed

Total professional fees of the refinancing were £8.3m which have been expensed in 2008 as a non-recurring item. Existing loan arrangements which were in place as at 31 December 2008 have been extinguished in full as part of this refinancing exercising. The effect of this on the 2009 financial statements will be to recognise a loss in the income statement in respect of all previously unamortised fees, amounting to £1.5m.

Financing of overseas businesses

Current bank borrowings shown above include a £25m facility to finance our property holding company in the Netherlands and a USD 20m facility used to fund our US businesses.

NOTES TO THE FINANCIAL STATEMENTS
Continued

18. cont Financial instruments and derivatives (continued)

As part of the refinancing, the following facilities have been agreed:

	Currency	Amount	Expiry date	Margin
Netherlands	Floating GBP	£23.5m	Earlier of April 2012 or on demand	3.25%
USA	Floating USD	$18m	Earlier of July 2010 or on demand	3.50%

The refinanced Netherlands facility results in an increased margin over that currently payable of 1.75%. An arrangement fee of 1% of the commitment is also payable at April 2009 together with a fee of 5% of the average outstanding commitment over the term, payable at maturity or repayment of the facility.

The refinanced USA facility results in an increase in margin over that currently payable of 1.25%. An arrangement fee of 1% of the commitment is also payable at April 2009.

Both facilities are not subject to covenants but security over assets has been granted, mainly comprising property, debtors and certain vehicle stocks (included within the £540m quoted above).

19. Provisions

The movements in provisions for the year are as follows:	Warranty service provision £m	Vacant property £m	VAT assessment £m	**Total £m**
At 31 December 2007	9.6	3.1	-	**12.7**
Impact of changes in discount rate	-	0.1	-	**0.1**
Provisions made during the year	4.4	3.8	26.8	**35.0**
Provisions used during the year	(6.6)	(1.2)	-	**(7.8)**
At 31 December 2008	7.4	5.8	26.8	**40.0**
Non-current	2.5	4.1	-	**6.6**
Current	4.9	1.7	26.8	**33.4**
	7.4	5.8	26.8	**40.0**

The provision on warranty service contracts relates to future repair costs expected against income received in advance, on products sold during the last three years. It is expected this expenditure will be incurred within three years of the balance sheet date.

The vacant property provision is comprised of the future costs of vacated properties, being predominantly future lease commitments.The present value of future lease commitments is calculated using an 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.

The provision for VAT follows discussions with HM Revenue and Customs over a number of issues arising from the treatment of partial exemption within the companies acquired with Reg Vardy PLC supplying finance and insurance services and the VAT treatment of sales of vehicles to certain disabled customers. The directors consider that full provision against these VAT assessments is prudent. The tribunal for each case is expected to be heard within the next twelve months (see also note 3).

NOTES TO THE FINANCIAL STATEMENTS
Continued

20. Called up share capital

	Number	£m
Authorised shares of 5p each at 31 December 2007 and at 31 December 2008	800,000,000	**40.0**
Allotted, called up and fully paid shares of 5p each at 31 December 2007 and 31 December 2008	656,027,350	**32.8**

No ordinary shares were issued during the year.

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.

21. Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation reserve £m	restated * Retained earnings £m	restated * **Total £m**
Balance at 1 January 2007	32.8	56.8	2.5	12.6	(0.3)	201.6	**306.0**
Total recognised income and expense for 2007	-	-	-	-	(0.1)	60.9	**60.8**
Dividends	-	-	-	-	-	(25.4)	**(25.4)**
Share based payments	-	-	-	-	-	(1.6)	**(1.6)**
Disposal of own shares in share trusts	-	-	-	-	-	1.0	**1.0**
Acquisition of own shares in share trusts	-	-	-	-	-	(1.2)	**(1.2)**
Balance at 31 December 2007 as previously stated	32.8	56.8	2.5	12.6	(0.4)	235.3	**339.6**
Effect of change in accounting policy on adoption of IFRIC 14 *	-	-	-	-	-	(32.4)	**(32.4)**
Balance at 31 December 2007 as restated	32.8	56.8	2.5	12.6	(0.4)	202.9	**307.2**
Balance at 1 January 2008	32.8	56.8	2.5	12.6	(0.4)	202.9	**307.2**
Total recognised income and expense for 2008	-	-	-	-	(1.3)	(181.4)	**(182.7)**
Dividends	-	-	-	-	-	(15.9)	**(15.9)**
Share based payments	-	-	-	-	-	0.2	**0.2**
Disposal of own shares in share trusts	-	-	-	-	-	0.1	**0.1**
Balance at 31 December 2008	32.8	56.8	2.5	12.6	(1.7)	5.9	**108.9**

* See change of accounting policy - note 1ad.

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 Chapter VII of Part V of the Companies Act 1985.

NOTES TO THE FINANCIAL STATEMENTS
Continued

21. Called up share capital

Other reserves

Other reserves comprise the amount of demerger reserve arising on the demerger of the Company from Williams PLC in 1989.

The market value of the investment in the Company's own shares at 31 December 2008 was £0.3m (2007: £7.2m), being 19.8m (2007: 20.4m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2007 : £0.44). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2008 was £8.0m (2007: £8.1m). The investment in own shares represents shares in the Company held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited (employee share ownership trusts) which may subsequently be awarded to executive directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme and the 1998 Pendragon Sharesave Scheme. Details of the plans are given in the Directors' Remuneration Report on pages 32 to 39.

Dividends on the shares owned by the trusts, the purchase of which were funded by interest free loans to the trusts from Pendragon PLC, are waived. All expenses incurred by the trusts are settled directly by Pendragon PLC and charged in the accounts as incurred.

The trusts are regarded as quasi subsidiaries and their assets and results are consolidated into the financial statements of the Group.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the net investment in foreign operations as well as from the translation of liabilities held to hedge the respective net investment in foreign operations.

22. Dividends

	2008 £m	2007 £m
Ordinary shares		
Final dividend in respect of 2007 of 2.00p per share (2006: 2.00p)	**12.7**	12.7
Interim dividend in respect of 2008 of 0.50p per share (2007: 2.00p)	**3.2**	12.7
	15.9	25.4

The Board is not recommending a final dividend for 2008.

Dividends on the 19.8m shares held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited are waived.

23. Business combinations

There were no business combinations made during the year.

During the previous year business combinations were made with a net cash outflow equalling the fair value of consideration of £16.3m.

No business combinations have been made between the balance sheet date and the date of this report.

NOTES TO THE FINANCIAL STATEMENTS
Continued

24. Business disposals

Net assets at date of disposal	Net book value £m
Property, plant and equipment	**4.3**
Intangible assets - goodwill	**0.6**
Inventories	**4.1**
Trade and other receivables	**0.1**
Trade and other payables	**(2.3)**
	6.8
Profit on sale of businesses	**0.9**
Proceeds on sale satisfied by cash and cash equivalents	**7.7**

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 £20.6m.

25. Cash and cash equivalents

	2008 £m	2007 £m
Bank balances and cash equivalents	**154.6**	52.6
Cash and cash equivalents in the statement of cash flows	**154.6**	52.6

26. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	2007 £m	2008 £m	2007 £m
Amounts payable under finance leases:				
Within one year	**3.7**	3.4	**3.3**	2.7
In the second to fifth years inclusive	**3.8**	6.5	**3.3**	5.6
After five years	**6.3**	8.3	**1.3**	1.4
	13.8	18.2	**7.9**	9.7
Less: future finance charges	**(5.9)**	(8.5)	**-**	-
Present value of lease obligations	**7.9**	9.7	**7.9**	9.7
Amount due for settlement within one year			**3.3**	2.7
Amount due for settlement in over one year			**4.6**	7.0
			7.9	9.7

The Group's obligations under finance leases comprise certain items of plant and equipment, the average lease term of which is two to three years and two properties on long term leases with a lease term of between 59 and 84 years. The effective interest rates are shown in note 18 above. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

NOTES TO THE FINANCIAL STATEMENTS

Continued

27. Operating lease arrangements

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £m	2007 £m
Within one year	**43.3**	48.5
In the second to fifth years inclusive	**165.5**	171.7
After five years	**692.9**	567.1
	901.7	787.3

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 include contingent rentals. In addition there are other leases in respect of items of plant and equipment which includes the rental of motor vehicles hired for short term usage typically as courtesy cars.

The Group as lessor

Property rental income earned during the year was £0.9m (2007: £0.5m). No contingent rents were recognised in income (2007 : £nil). The Group currently receives rental income on eight properties on short term leases.

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

	2008 £m	2007 £m
Within one year	**1.2**	0.7
In the second to fifth years inclusive	**4.7**	2.0
After five years	**6.4**	2.1
	12.3	4.8

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

28. Employee benefits

Share Schemes

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

	Weighted average exercise price 2008	**Number of options millions 2008**	Weighted average exercise price 2007	Number of options millions 2007
Outstanding at beginning of period	**60.43p**	**17.6**	66.87p	24.3
Lapsed during the period	**66.34p**	**(7.3)**	99.92p	(5.0)
Exercised during the period	**23.47p**	**(0.8)**	27.43p	(1.7)
Granted during the period	**10.39p**	**6.4**	-	-
Outstanding at the end of the period	**38.85p**	**15.9**	60.43p	17.6
Exercisable at the end of the period	**42.60p**	**6.3**	25.84p	4.1

The options outstanding at 31 December 2008 have an exercise price in the range of 10.2 pence to 130.6 pence and a weighted contractual life of six and a half years. All share options are settled in equity.

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 2008 were as follows:

NOTES TO THE FINANCIAL STATEMENTS
Continued

28. cont Employee benefits (continued)

Exercise period	Date of grant	Scheme description	Exercise price per share	At 31 December 2007 Number	Granted Number	Exercised Number	Lapsed Number	At 31 December 2008 Number
17 March 2001 to 16 March 2008	17 March 1998	1989 Executive Scheme	24.6p	106,250	-	-	(106,250)	-
9 October 2001 to 8 October 2008 *	9 October 1998	1989 Executive Scheme	10.2p	106,250	-	-	(106,250)	-
21 June 2002 to 20 June 2009	21 June 1999	1999 Executive Scheme	13.0p	12,500	-	-	-	12,500
9 March 2004 to 8 March 2011	9 March 2001	1999 Executive Scheme	18.7p	349,995	-	-	-	349,995
1 July 2008 to 31 December 2008	1 July 2001	1998 Sharesave Scheme	18.0p	68,955	-	-	(68,955)	-
24 March 2006 to 23 March 2013	24 March 2003	1999 Executive Scheme	23.4p	681,400	-	(187,500)	-	493,900
24 March 2008 to 23 March 2013	24 March 2003	1999 Executive Scheme	23.4p	2,339,995	-	(590,000)	-	1,749,995
1 July 2008 to 31 December 2008	1 July 2003	1998 Sharesave Scheme	24.6p	1,382,880	-	-	(1,329,385)	53,495
1 July 2010 to 31 December 2010	1 July 2003	1998 Sharesave Scheme	24.6p	419,040	-	(23,835)	(181,360)	213,845
30 September 2006 to 29 September 2013	30 September 2003	1999 Executive Scheme	40.2p	696,135	-	-	(97,765)	598,370
20 September 2009 to 19 September 2014	20 September 2004	1999 Executive Scheme	60.2p	3,500,000	-	-	(425,000)	3,075,000
1 July 2008 to 31 December 2008	1 July 2005	1998 Sharesave Scheme	60.4p	2,958,375	-	-	(2,885,650)	72,725
1 July 2010 to 31 December 2010	1 July 2005	1998 Sharesave Scheme	60.4p	1,516,915	-	-	(267,630)	1,249,285
1 July 2012 to 31 December 2012	1 July 2005	1998 Sharesave Scheme	60.4p	468,620	-	-	(185,790)	282,830
1 July 2009 to 31 December 2009	1 July 2006	1998 Sharesave Scheme	130.6p	1,399,545	-	-	(745,390)	654,155
1 July 2011 to 31 December 2011	1 July 2006	1998 Sharesave Scheme	130.6p	1,271,060	-	-	(689,045)	582,015
1 July 2013 to 31 December 2013	1 July 2006	1998 Sharesave Scheme	130.6p	305,110	-	-	(176,345)	128,765
19 September 2011 to 18 September 2018	19 September 2008	1999 Executive Scheme	10.39p	-	6,375,000	-	(30,000)	6,345,000
				17,583,025	6,375,000	(801,335)	(7,294,815)	15,861,875

* Parallel grant

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

On 19 September 2008 options over 6,375,000 ordinary shares of 5p were granted pursuant to the 1999 Executive Option Scheme at an exercise price of 10.39p per share.

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

The weighted average share price at the date of exercise for share options exercised in the year was 34.4 pence (2007: 98.0 pence).

The vesting conditions attaching to the 1998 Pendragon Sharesave schemes are that the option holder must 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 2008 is 18.1 pence (2007: 25.7 pence).

NOTES TO THE FINANCIAL STATEMENTS
Continued

28. cont Employee benefits (continued)

There were no sharesave options granted during 2008 to any team members. The average assumptions input into the models for options granted under the sharesave schemes and LTIP in each year were as follows:

	1999 Executive Scheme		Sharesave Scheme		Long term incentive plan	
	2008	2007	**2008**	2007	**2008**	2007
Number of share options granted in year	**6,375,000**	-	**-**	-	**-**	1,330,109
Weighted average share price (pence)	**10.39**	-	**-**	-	**-**	110.30
Weighted average exercise price (pence)	**10.39**	-	**-**	-	**-**	-
Expected volatility (%)	**57.6%**	-	**-**	-	**-**	32.8%
Expected life (years)	**3.0**	-	**-**	-	**-**	3.0
Risk free rate (%)	**3.81%**	-	**-**	-	**-**	5.2%
Expected dividend yield (%)	**5.0%**	-	**-**	-	**-**	-

Expected volatility was determined by calculating the historical volatility of the Company's share price over the corresponding historical period. 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 £0.2m related to equity-settled share based payment transactions (2007: £nil of which a credit of £0.3m was in respect of the LTIP).

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.

The Group increased its level of contributions to all of the schemes. Four of the schemes have had formal actuarial valuations as at April 2006 and two at April 2007. All the actuarial valuations have been issued under the UK Government's new Scheme Specific Funding arrangements. The Group has agreed recovery plans with the six schemes which aim to eliminate the current deficits over a five year period.

Pendragon Pension Plan

The Pendragon Pension Plan is a funded defined benefit scheme with a defined contribution section. The last actuarial valuation of the Plan was carried out as at 5 April 2006 using the projected unit credit method. At this date the market value of the Plan's assets relating to the defined benefit section was £100.4m; these assets represented 71.8% of the value of technical provisions (excluding defined contribution assets). The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5% and the annual rate of pension increases would be between 2.5%-3%.

The Pendragon Pension Plan assumed all assets and obligations of the Stripestar Pension Scheme after it was merged on 6 April 2007.

The employer contributions paid to the defined benefit section of the Plan during the year were £5.8m, based upon actuarial advice.

NOTES TO THE FINANCIAL STATEMENTS
Continued

28. cont Employee benefits (continued)

CD Bramall Pension Scheme

The CD Bramall Pension Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2006 using the projected unit credit method. At the valuation date, the market value of assets was £22.6m; these assets represented 70.5% of the value of technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5% and the annual rate of pension increases would be between 2.5%-3%.

The employer contributions paid to the Scheme during the year were £1.9m, based upon actuarial advice.

CD Bramall Dealerships Limited Pension Scheme

The CD Bramall Dealerships Limited Pension Scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2006 using the projected unit credit method. At the valuation date, the market value of assets was £23.5m; these assets represented 65.5% of the value of accrued liabilities. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5% and the annual rate of pension increases would be between 2.5%-3%.

The employer contributions paid to the Scheme during the year were £1.9m, based upon actuarial advice.

CD Bramall Retirement Benefits Scheme

The CD Bramall Retirement Benefits Scheme is a funded defined benefit scheme. The defined contribution section has been wound up. The last actuarial valuation was carried out as at 31 March 2006 using the projected unit credit method. At the valuation date, the market value of assets relating to the defined benefit section was £5.2m; these assets represented 67.2% of the value of the technical provisions (excluding defined contribution assets). The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5% and the annual rate of pension increases would be between 2.5%-3%.

The employer contributions paid to the Scheme during the year were £0.5m, based upon actuarial advice.

Quicks Pension Scheme

The Quicks Pension scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2007 using the projected unit credit method. At the valuation date, the market value of assets was £74.5m; these assets represented 79% of the value of the technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 5.5% and the annual rate of pension increases would be between 3.2%-3.6%.

The employer contributions paid to the Scheme during the year were £6.5m, based upon actuarial advice.

Reg Vardy Retirement Scheme

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

The employer contributions paid to the Scheme during the year were £2.4m, based upon actuarial advice.

28. cont **Employee benefits (continued)**

Stakeholder arrangements

With effect from April 2006, new contributions to the defined contribution sections of the schemes ceased. For the employees affected the Group offered to pay contributions to a new stakeholder arrangement with Friends Provident. This arrangement was also made available to the employees affected by the closure of the defined benefit sections of the schemes on 30 September 2006. Total contributions paid by the Group in 2008 to the Stakeholder arrangement were £4.4m.

IAS19 assumptions

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 for all schemes were:

	2008	2007	2006
Inflation	**3.00%**	3.20%	2.90%
Rate of increase in salaries	**n/a**	n/a	n/a
Rate of increase to pensions in payment	**3.20% ***	3.20%	2.90%
Discount rate	**6.30%**	6.00%	5.20%
Mortality table assumption	**115% PNMA00 / 110% PNFA00 YOB** mc min 1% imp**	PA92YOB **	PA92YOB **

* A full breakdown of the assumptions for the rates of increase to pensions in payment for the 31 December 2008 valuation is as follows:

RPI to max 5%	3.20%
RPI to max 3%	2.30%
RPI to min 3% to max 5%	3.90%

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 £5.4m
Rate of inflation	Increase / decrease by 0.1%	Increase / decrease of £3.5m

The expected long term rates of return on the main asset classes were:	**2008**	2007	2006
Equities	**7.90%**	8.30%	8.60%
Bonds	**4.20%**	4.80%	4.70%
Cash	**2.00%**	5.00%	4.60%

The weighted average expected long term rates of return were:	**2008**	2007	2006
	6.18%	7.35%	7.66%

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 2008 and differ from those used for the earlier independent statutory actuarial valuations explained above.

NOTES TO THE FINANCIAL STATEMENTS
Continued

28. cont **Employee benefits (continued)**

** The mortality table assumption implies the following expected future lifetime from age 65:

	2008 Years	2007 Years	2006 Years
Males aged 45	**22.9**	21.0	20.9
Females aged 45	**25.7**	24.0	23.9
Males aged 65	**21.0**	19.7	19.6
Females aged 65	**23.8**	22.7	22.7

The fair value of the schemes' assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the value of the schemes' liabilities, which is derived from cash flow projections over long periods and thus inherently uncertain, are:

Scheme assets and liabilities

	2008 £m	restated 2007 £m	restated 2006 £m
Equities	**140.8**	223.0	215.9
Bonds	**100.3**	73.8	59.9
Cash	**10.2**	10.5	8.0
Fair value of scheme assets	**251.3**	307.3	283.8
Present value of funded defined benefit obligations	**(313.8)**	(321.1)	(349.0)
	(62.5)	(13.8)	(65.2)
Adjustment in respect of minimum funding requirement and non-recognition of surplus	**(2.9)**	(45.0)	(12.5)
Net liability on the balance sheet	**(65.4)**	(58.8)	(77.7)

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

	2008 £m	restated 2007 £m
Net liability for defined benefit obligations at 1 January	**(58.8)**	(77.7)
Contributions received	**19.0**	18.9
Income recognised in the income statement	**4.0**	4.2
Actuarial gains and losses recognised in equity	**(71.7)**	28.3
Adjustment in respect of minimum funding requirement and non-recognition of surplus	**42.1**	(32.5)
Net liability for defined benefit obligations at 31 December	**(65.4)**	(58.8)

	2008 £m	2007 £m
Actual return on assets	**(58.7)**	12.9
Expected contributions in following year	**19.0**	18.5

NOTES TO THE FINANCIAL STATEMENTS
Continued

28. cont **Employee benefits (continued)**

Total expense recognised in the income statement

	2008 £m	2007 £m
Current service cost	**-**	-
Interest on obligation	**18.7**	17.9
Expected return on assets	**(22.7)**	(22.1)
	(4.0)	(4.2)

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

	2008 £m	2007 £m
Finance costs	**18.7**	17.9
Finance income	**(22.7)**	(22.1)
	(4.0)	(4.2)

Actuarial gains and losses recognised directly in equity

	2008 £m	2007 £m
Cumulative amount at 1 January	**27.4**	(0.9)
Recognised during the period	**(71.7)**	28.3
Cumulative amount at 31 December	**(44.3)**	27.4

Amounts recognised in the statement of recognised income and expense

	2008 £m	restated 2007 £m
Difference between actual and expected return on scheme assets	**(81.4)**	(9.3)
Experience loss on scheme liabilities	**(1.6)**	(1.0)
Changes in assumptions underlying the present value of scheme obligations	**11.3**	38.6
	(71.7)	28.3
Adjustment in respect of minimum funding requirement and non-recognition of surplus	**42.1**	(32.5)
	(29.6)	(4.2)

Changes in the present value of the defined benefit obligation

	2008 £m	2007 £m
Opening present value of defined benefit obligation	**321.1**	349.0
Interest cost	**18.7**	17.9
Actuarial gains	**(9.7)**	(37.6)
Less benefits paid	**(16.3)**	(8.2)
Closing present value of defined benefit obligation	**313.8**	321.1

NOTES TO THE FINANCIAL STATEMENTS

Continued

28. cont **Employee benefits (continued)**

Movement in fair value of scheme assets during the period

	2008 £m	2007 £m
Opening fair value of assets	**307.3**	283.8
Expected return on assets	**22.7**	22.1
Actuarial losses on assets	**(81.4)**	(9.3)
Contributions by employer	**19.0**	18.9
Less benefits paid	**(16.3)**	(8.2)
End of period	**251.3**	307.3

History of experience adjustments

	2008 £m	restated 2007 £m	restated 2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	**313.8**	321.1	349.0	300.9	249.6
Fair value of scheme assets	**251.3**	307.3	283.8	210.5	169.4
Adjustment in respect of minimum funding requirement and non-recognition of surplus	**(2.9)**	(45.0)	(12.5)	-	-
Deficit in schemes	**65.4**	58.8	77.7	90.4	80.2
Experience adjustments on scheme liabilities					
Amount	**(9.7)**	(37.6)	(8.0)	38.5	10.1
Percentage of scheme liabilities (%)	**(3.1)%**	(11.7)%	(2.3)%	12.8%	4.0%
Experience adjustments on scheme assets					
Amount	**(81.4)**	(9.3)	10.1	21.4	8.3
Percentage of scheme liabilities (%)	**(25.9)%**	(2.9)%	2.9%	7.1%	3.3%

29. **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 pages 98 and 99.

Joint venture

The Group has a 51% ordinary share capital interest in a joint venture PPH0 Limited, whose principal activity is that of a property company. The Group occupies properties owned by PPH0 Limited and its group on short term leases.

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

	2008 £m	2007 £m
Rent paid to related party	**23.5**	23.1
Proceeds of property sold to related party	**-**	2.1
Management fee received from related party	**0.3**	0.2
Amounts owed to related party	**-**	-
Amounts owed from related party	**-**	-

NOTES TO THE FINANCIAL STATEMENTS
Continued

29. cont Related party transactions (continued)

Transactions with key management personnel

The key management personnel of the Group comprise the executive and non-executive directors. The details of the remuneration, long term incentive plans, shareholdings, share option and pension entitlements of individual directors are included in the Directors' Remuneration Report on pages 32 to 39.

Directors of the Company and their immediate relatives control 5.72% of the ordinary shares of the Company.

During the year key management personnel compensation was as follows:

	2008 £m	2007 £m
Short term employee benefits	**1.4**	1.7
Post-employment benefits	**0.3**	0.3
	1.7	2.0

30. Deferred Income

The Group entered into a sale and leaseback arrangement in December 2006 with its joint venture Company PPH0 Limited, in which a number of properties were disposed of generating total proceeds of £250.1m. The arrangement entitles PPH0 Limited to lease back those properties to the Group over a period of 25 years, a factor resulting in the Group receiving a consideration in excess of the deemed fair value as at the date of disposal, when measured under an open market valuation in accordance with IFRS. The proceeds received were estimated to be greater than the fair value of the properties by £17.8m and as required by IAS 17 'Leases' this excess over fair value is deferred and will be amortised over the period of the leases. At 31 December 2008 the unamortised amount of the deferred income was £15.1m, all shown within non-current liabilities. In addition, the leases include fixed rental increases. Deferred income includes £4.6m in this respect, which is recorded within non-current liabilities. (2007 total deferred revenue: £21.1m, £0.9m current, £20.2m non-current).

31. Non-current assets classified as held for sale

The Group holds a number of freehold properties that are currently being marketed for sale which are expected to be disposed of during 2009.

During the year impairment losses of £11.9m on the remeasurement of these assets to the lower of their carrying amount and their value less costs to sell were recognised in the income statement within operating expenses (2007: £nil).

During the year non-current assets classified as held for sale disposed of realised a loss of £1.6m which is included on the income statement under 'Other income - gains on the sale of businesses and property' (2007: profit of £6.8m).

These properties form part of central segment assets.

32. Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting judgements when applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

Goodwill impairment

The carrying value of goodwill is tested annually for impairment by using cash flow projections for each cash generating unit. These projections are based upon planned results for the next four years and cash flows then projected into perpetuity. An average discount rate of 13.3% is used.

NOTES TO THE FINANCIAL STATEMENTS
Continued

32. cont **Accounting estimates and judgements**

Intangible assets

Management undertook a review of intangible assets that are pertinent to the motor business. This included consideration of customer lists, franchise rights, brands and other intangible assets. The review concluded that for acquisitions undertaken since 1 January 2004 no intangible assets or rights had been acquired with the exception of the value attaining to the order book that existed at the point of acquisition.

Consignment inventories

Consignment vehicles are regarded as being effectively under the control of the Group and are included within inventories on the balance sheet as the Group has the significant risks and rewards of ownership even though legal title has not yet passed. The corresponding liability is included in trade and other payables.

Repurchase commitments

The Group enters into leasing arrangements whereby it agrees to repurchase vehicles from lessees or providers of lease finance at the end of the lease agreement, typically two to four years in the future. The repurchase price is determined at the time the agreement is entered into based on the then estimate of a vehicle's future residual value. The actual value of the vehicles at the end of the lease contract, and therefore the proceeds that can be realised from eventual sale, can vary materially from these estimates. Annual reviews are undertaken to reappraise residual values and to recognise impairment write downs where necessary.

Employee post retirement benefit obligations

The Group has six defined benefit pension plans. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of assumptions used are provided in note 28.

Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

Income tax

The actual tax on the Group's profits is determined according to complex laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on past profits which are recognised in the financial statements. The Group considers the estimates, assumptions and judgements to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements.

Value Added Tax

The Group is in discussion with HM Revenue and Customs over a number of issues arising from recent developments in case law, the treatment of partial exemption within the companies supplying finance and insurance services and the VAT treatment of sales of vehicles to certain disabled customers. Whilst the outcome of these issues have still to be resolved, management have made an assessment as to the potential liabilities that may arise in the future.

NOTES TO THE FINANCIAL STATEMENTS
Continued

33. Subsequent events

Due to the abnormal trading conditions experienced in the year covenants due to be measured at 31 December 2008 in relation to the £510m credit facility and USD and GBP loan notes were deferred at a cost of £2.9m.The full £2.9m should under IAS 39 be capitalised and amortised over the remaining life of the loan but has been expensed in the current year income statement given the refinancing activities undertaken as described below.

The Group has since been refinanced and on 30 April 2009 new loan agreements restructuring the existing loans and loan notes have been made as follows:

Term loan	Expiry date	**£m**
	June 2009	**20.0**
	December 2009	**20.0**
	June 2010	**20.0**
	December 2010	**20.0**
	June 2011	**20.0**
	December 2011	**20.0**
	April 2012	**90.0**
Total term loan		**210.0**
Revolving credit facility	April 2012	**210.0**
		420.0

Loan notes	Expiry date	**Fair value at 31 December 2008**	**Fair value net of swaps at 31 December 2008**
5.65% USD 110 million loan notes 2011	April 2012	**79.2**	**57.6**
5.95% USD 67 million loan notes 2014	April 2012	**51.0**	**35.5**
5.95% GBP 17 million loan notes 2014	April 2012	**18.5**	**17.1**
		148.7	**110.2**

The terms of the refinancing are shown in detail in note 18.

33. Contingent liabilities

The Group is in discussion with HM Revenue and Customs over issues which may result in additional liabilities to be recognised in future periods and although these liabilities, if any, could potentially be significant, it is not possible at present to quantify them. Accordingly no amounts have been included in the 2008 financial statements in respect of these issues.

COMPANY BALANCE SHEET
at 31 December 2008

Notes		2008 £m	2007 £m
	Fixed assets		
5	Investments	**850.6**	930.9
	Loans to subsidiary undertakings	**90.0**	90.0
		940.6	1,020.9
	Current assets		
6	Debtors	**57.7**	23.4
	Cash at bank and in hand	**26.0**	32.8
		83.7	56.2
7	**Creditors:** amounts falling due within one year	**(480.6)**	(639.4)
	Net current liabilities	**(396.9)**	(583.2)
	Total assets less current liabilities	**543.7**	437.7
8	**Creditors:** amounts falling due after more than one year	**(463.4)**	(295.6)
	Net assets	**80.3**	142.1
	Capital and reserves		
10	Called up share capital	**32.8**	32.8
11	Share premium account	**56.8**	56.8
11	Capital redemption reserve	**2.5**	2.5
11	Other reserves	**13.9**	13.9
11	Profit and loss account	**(25.7)**	36.1
	Equity shareholders' funds	**80.3**	142.1

Approved by the Board of Directors on 30 April 2009 and signed on its behalf by:

T G Finn
Chief Executive

D R Forsyth
Finance Director

The notes on pages 96 to 102 form part of these financial statements

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 December 2008

Notes		2008 £m	2007 £m
	Loss for the financial year	**(46.0)**	(19.5)
4	Dividends paid	**(15.9)**	(25.4)
		(61.9)	(44.9)
	Purchase of own shares in share trusts	**0.1**	1.0
	Disposal of own shares in share trusts	**-**	(1.2)
	Net reduction to shareholders' funds	**(61.8)**	(45.1)
	Opening shareholders' funds	**142.1**	187.2
	Closing shareholders' funds	**80.3**	142.1

The notes on pages 96 to 102 form part of these financial statements

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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. 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.

As permitted by Financial Reporting Standard 26 'Financial Instruments: Measurement' these policies were adopted on 1 January 2005.

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.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY
Continued

1. cont Accounting policies (continued)

(d) Investments Investments held as fixed assets are stated at cost less any impairment losses.

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

(f) Pensions The Company participates in a Group wide defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The Company participates in a Group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

(g) Related parties Under FRS 8 the Company has relied upon the exemption not to disclose related party transactions with other Group undertakings as they are all included in the Pendragon PLC consolidated financial statements.

(h) Dividends Dividends proposed by the Board and unpaid at the end of the year are not recognised in the financial statements until they have been approved by the shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

(i) Own shares held by ESOP trust Transactions of the Group-sponsored ESOP trust are included in the Company financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

(j) Contingent liabilities Where Pendragon PLC, the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

2. Profit and loss account of the Company

In accordance with the exemption allowed by Section 230 (4) of the Companies Act 1985, 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 2008 is £46.0m (2007: £19.5m).

3. Directors

Total emoluments of directors (including pension contributions) amounted to £1.7m (2007: £2.0m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 32 to 39.

The directors are the only employees of the Company.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY
Continued

4. Dividends

	2008 £m	2007 £m
Ordinary shares		
Final dividend in respect of 2007 of 2.00p per share (2006: 2.00p)	**12.7**	12.7
Interim dividend in respect of 2008 of 0.50p per share (2007: 2.00p)	**3.2**	12.7
	15.9	25.4

The Board are not recommending a final dividend for 2008.

5. Investments

	Shares in joint venture £m	Shares in subsidiary undertakings £m	**Total £m**
At 31 December 2007	21.7	909.2	**930.9**
Provision for impairment	(21.7)	(58.6)	**(80.3)**
At 31 December 2008	-	850.6	**850.6**

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

The investment in PPH0 Limited has been fully impaired as a result of the circumstances described in note 13 of the group financial statements. An impairment charge of £58.6m has been recognised in respect of shares in subsidiary undertakings as a result of business units pending closure and current trading conditions.

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
Andre Baldet Limited	Motor vehicle dealer
Bramall Contracts Limited	Contract hire & fleet management
Bramall Quicks Dealerships Limited	Motor vehicle dealer
Bridgegate Limited	Motor vehicle dealer
Car Fleet Control Limited	Computer systems and services
CD Bramall (York) Limited	Motor vehicle dealer
CD Bramall Dealerships Limited	Motor vehicle dealer
CD Bramall Motors Limited	Motor vehicle dealer
Charles Sidney Holdings Limited	Motor vehicle dealer
Chatfields-Martin Walter Limited	Motor vehicle dealer
Derwent Vehicles Limited	Motor vehicle dealer
Evans Halshaw (Chesham) Limited	Motor vehicle dealer
Evans Halshaw Motors Limited	Motor vehicle dealer
Executive Motors Limited	Motor vehicle dealer
National Fleet Solutions Limited	Motor vehicle dealer
Pendragon Contracts Limited	Contract hire & fleet management
Pendragon Extra Limited	Plant leasing and rentals
Pendragon Finance and Insurance Limited	Motor vehicle finance and insurance services
Pendragon Javelin Limited	Motor vehicle dealer
Pendragon Management Services Limited	Management services

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY
Continued

5. cont **Investments (continued)**

Name	Activity
Incorporated in Great Britain:	
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
Pendragon Viking Limited	Motor vehicle dealer
Petrogate Limited	Property holdings
Pinewood Technologies PLC *	Computer systems and services
Reg Vardy (AMC) Limited	Motor vehicle dealer
Reg Vardy (MML) Limited	Motor vehicle repairs
Reg Vardy (Property Management) Limited	Property holdings
Reg Vardy (TMC) Limited	Motor vehicle dealer
Reg Vardy (VMC) Limited **	Motor vehicle dealer
Reg Vardy Limited *	Motor vehicle dealer
Stratstone Specialist Limited	Motor vehicle dealer
Stripestar Limited	Motor vehicle dealer
Trust Properties Limited	Property holdings
Vardy (Continental) Limited	Motor vehicle dealer
Vardy Marketing Limited	Marketing services
Vertcell Limited	Motor vehicle parts distribution
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 and operates the company under an agreement with the manufacturer.

6. **Debtors**

	2008 £m	2007 £m
Amounts due within one year:		
Corporation tax	**10.6**	20.9
Other debtors	**0.2**	2.5
	10.8	23.4
Amounts due after more than one year:		
Deferred tax (see note 9)	**8.4**	-
Derivative financial instruments	**38.5**	-
	46.9	-
	57.7	23.4

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY
Continued

7. Creditors : amounts falling due within one year

	2008 £m	2007 £m
Unsecured bank loans	**40.0**	40.0
Amounts due to subsidiary undertakings	**440.6**	599.4
	480.6	639.4

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

	2008 £m	2007 £m
Unsecured bank loans (repayable between one and two years)	**40.0**	40.0
Unsecured bank loans (repayable between two and five years)	**274.7**	145.2
Unsecured loan notes (repayable between two and five years)	**79.2**	54.6
Unsecured loan notes (repayable after five years)	**69.5**	50.2
Derivative financial instruments	**-**	5.6
	463.4	295.6

Unsecured loan notes (repayable after five years) comprise:	2008 £m	2007 £m
5.95% USD 67 million loan notes 2014	**51.0**	33.3
5.95% GBP 17 million loan notes 2014	**18.5**	16.9
	69.5	50.2

9. Deferred tax

The movements in the deferred tax asset for the year are as follows:	Deferred tax £m
At 31 December 2007	**-**
Profit and loss account	**8.4**
At 31 December 2008	**8.4**

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

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

	2008 £m	2007 £m
Losses	**7.7**	-
Other timing differences	**0.7**	-
	8.4	-

A deferred tax asset has been recognised in respect of tax losses carried forward at 31 December 2008 as it is expected that the Company will generate sufficient taxable profits in the foreseeable future for these tax losses to be utlised against.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY
Continued

10. Called up share capital

	Number	£m
Authorised shares of 5p each at 31 December 2007 and at 31 December 2008	800,000,000	**40.0**
Allotted, called up and fully paid shares of 5p each at 31 December 2007 and at 31 December 2008	656,027,350	**32.8**

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 2008 are fully disclosed above on page 85 of this report.

11. Reserves

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
At 31 December 2007	56.8	2.5	13.9	36.1
Loss for the financial year	-	-	-	(46.0)
Dividends paid	-	-	-	(15.9)
Disposal of own shares in share trusts	-	-	-	0.1
At 31 December 2008	56.8	2.5	13.9	(25.7)

The market value of the investment in the Company's own shares at 31 December 2008 was £0.3m (2007: £7.2m), being 19.8m (2007: 20.4m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2007 : £0.44). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2008 was £8.0m (2007: £8.1m). The investment in own shares represents shares in the Company held by Pendragon Quest Trustees Limited and Investec Trust Guernsey Limited (employee share ownership trusts) which may subsequently be awarded to executive directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme and the 1998 Pendragon Sharesave Scheme. Details of the plans are given in the Directors' Remuneration Report on pages 32 to 39.

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

	2008 £m	2007 £m
Changes in fair value charged to profit and loss	**0.1**	(0.1)

Details of valuation techniques and fair values of each category of financial instruments are given above in note 18 to the consolidated financial statements on page 75 in the section headed 'Fair value hedges of interest rate and currency risk'.

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 2008 the scheme had a deficit on an FRS 17 basis of £27.2m (2007: £3.8m).

The latest full actuarial valuation was carried out at 5 April 2006 and was updated for FRS 17 purposes to 31 December 2008 by a qualified independent actuary.

The Company has no outstanding pension contributions (2007: £nil).

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

Continued

14. 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.

15. Post balance sheet event

Due to the abnormal trading conditions experienced in the year covenants due to be measured at 31 December 2008 in relation to the £510m credit facility and USD and GBP loan notes were deferred at a cost of £2.9m.

The Company has since been refinanced and on 30 April 2009 new loan agreements restructuring the existing loans and loan notes have been made as follows:

Term loan	Expiry date	**£m**
	June 2009	**20.0**
	December 2009	**20.0**
	June 2010	**20.0**
	December 2010	**20.0**
	June 2011	**20.0**
	December 2011	**20.0**
	April 2012	**90.0**
Total term loan		**210.0**
Revolving credit facility	April 2012	**210.0**
		420.0

Loan notes	Expiry date	**Fair value at 31 December 2008**	**Fair value net of swaps at 31 December 2008**
5.65% USD 110 million loan notes 2011	April 2012	**79.2**	**57.6**
5.95% USD 67 million loan notes 2014	February 2014	**51.0**	**35.5**
5.95% GBP 17 million loan notes 2014	February 2014	**18.5**	**17.1**
		148.7	**110.2**

The holders of the 2014 loan notes have an option to require repayment in April 2012.

The terms of the refinancing are shown in detail in note 18 to the consolidated financial statements on page 79.

SHAREHOLDER INFORMATION

Stock classification The ordinary shares of the Company are traded on the London Stock Exchange. Information concerning the day to day movement of the share price can be found on the London Stock Exchange's website under the code PDG. Users of GlobalTOPIC Trader and Reuters can identify the stock by the code PDG.L, and Bloomberg users by the code PDG LN.

Share dealing service The following companies offer private investors a quick and easy telephone share dealing service for dealings in the Company's shares.

Barclays Stockbrokers Limited will purchase and sell shares at the following commission rates plus stamp duty and PTM Levy of £1 where applicable, subject to the minimum dealing charge of £15.00 per transaction.
1.5% commission on first £5,000
0.85% commission on the next £5,000
0.15% commission thereafter

Calls made to 0845 numbers are free for BT residential customers part of their inclusive call package; otherwise calls will cost no more than 4p per minute plus 8p call set-up fee (current as at February 2009). The price on non-BT phone lines may vary; please check with your service provider. You can only use these numbers if you are calling from within the UK. Calls may be recorded to monitor the quality of service, to check instructions and for security purposes.

Barclays Stockbrokers is the group name for the businesses of: Barclays Stockbroker Limited, a member of the London Stock Exchange and PLUS. Registered No. 1986161; Barclays Sharedealing, Registered No. 20941; and Barclays Bank Trust Company Limited, Registered No. 920880. All companies are registered in England and the registered address is: 1 Churchill Place, London, E14 5HP. All companies are authorised and regulated by the Financial Services Authority.

Capita Registrars, a Trading Division of Capita IRG Trustees Limited, will purchase and sell shares at the following commission rates plus stamp duty and PTM Levy where applicable. Online (via www.capitadeal.com) at commission of 1% of the value of the trade, minimum £20/maximum £52.50 dealing charge, or by telephone on 0871 664 0364* at commission of 1.5% of the value of the trade, minimum £25/maximum £102.50 dealing charge.

Further details of the services including full Terms and Conditions may be obtained by telephoning 0871 664 0364 (*calls charged at national rates).

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.

ADDRESS
Pendragon PLC, Neway House, Little Oak Drive, Annesley, Nottingham, NG15 0DR

TELEPHONE 01623 725000
FAX 01623 725010

WEB
www.pendragonplc.com

DESIGN
Stratstone Marketing, Neway House, Little Oak Drive, Annesley, Nottingham, NG15 0DR