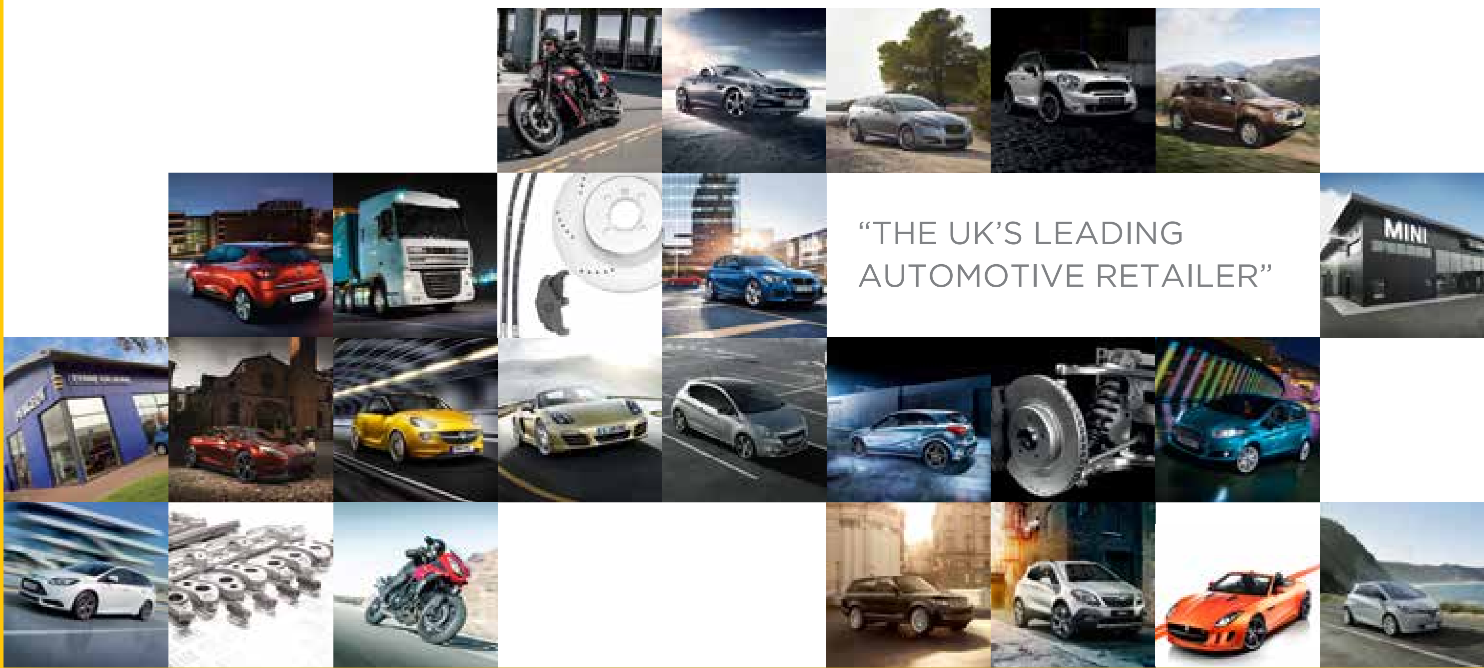
Pendragon | PLC

2012 ANNUAL REPORT
PENDRAGON PLC



"THE UK'S LEADING AUTOMOTIVE RETAILER"

CONTENTS

OVERVIEW

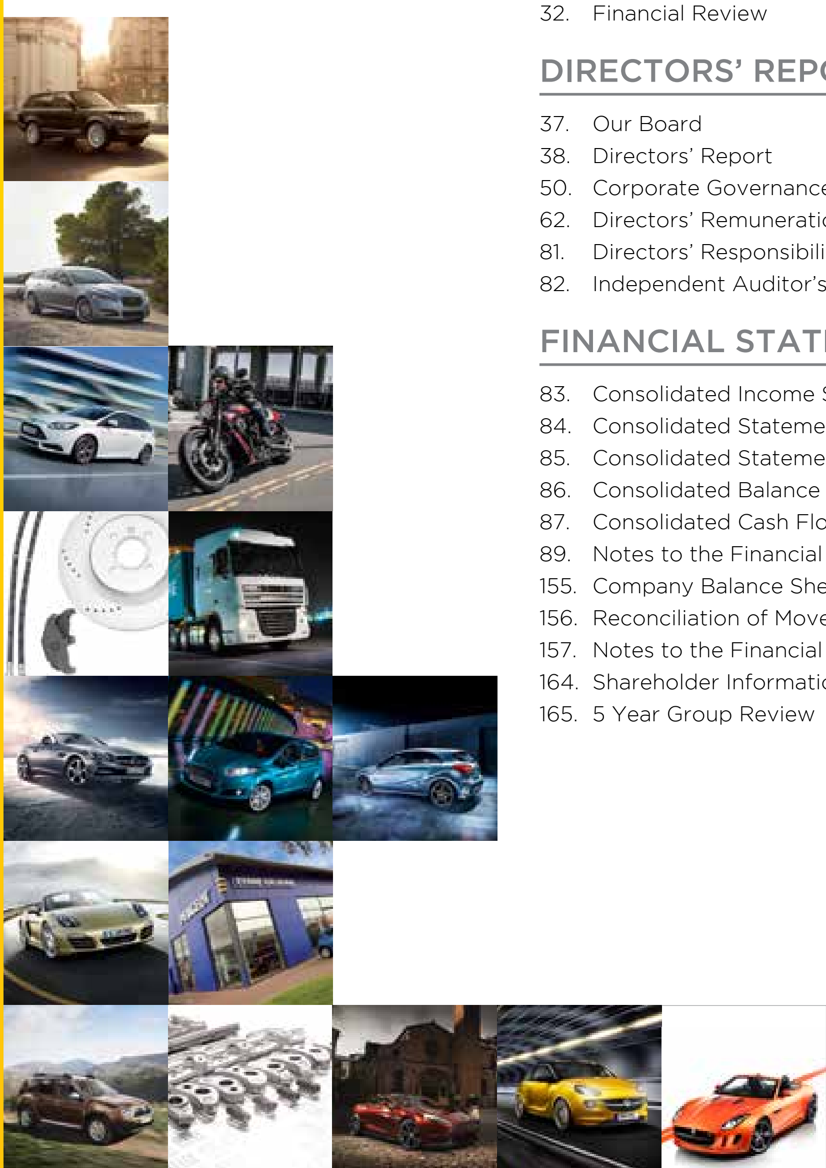
OUR MARKETS

OUR BUSINESS

OUR STRATEGY & PROGRESS

DIRECTORS' REPORTS

FINANCIAL STATEMENTS




FIESTA

Ford Fiesta available from evanshalshaw.com

PENDRAGON AT A GLANCE

£481m
GROSS PROFIT

7%
USED CAR UNIT GROWTH

>1MILLION
AFTERSALES TRANSACTIONS

9,261
EMPLOYEES

10.9m
WEBSITE HITS

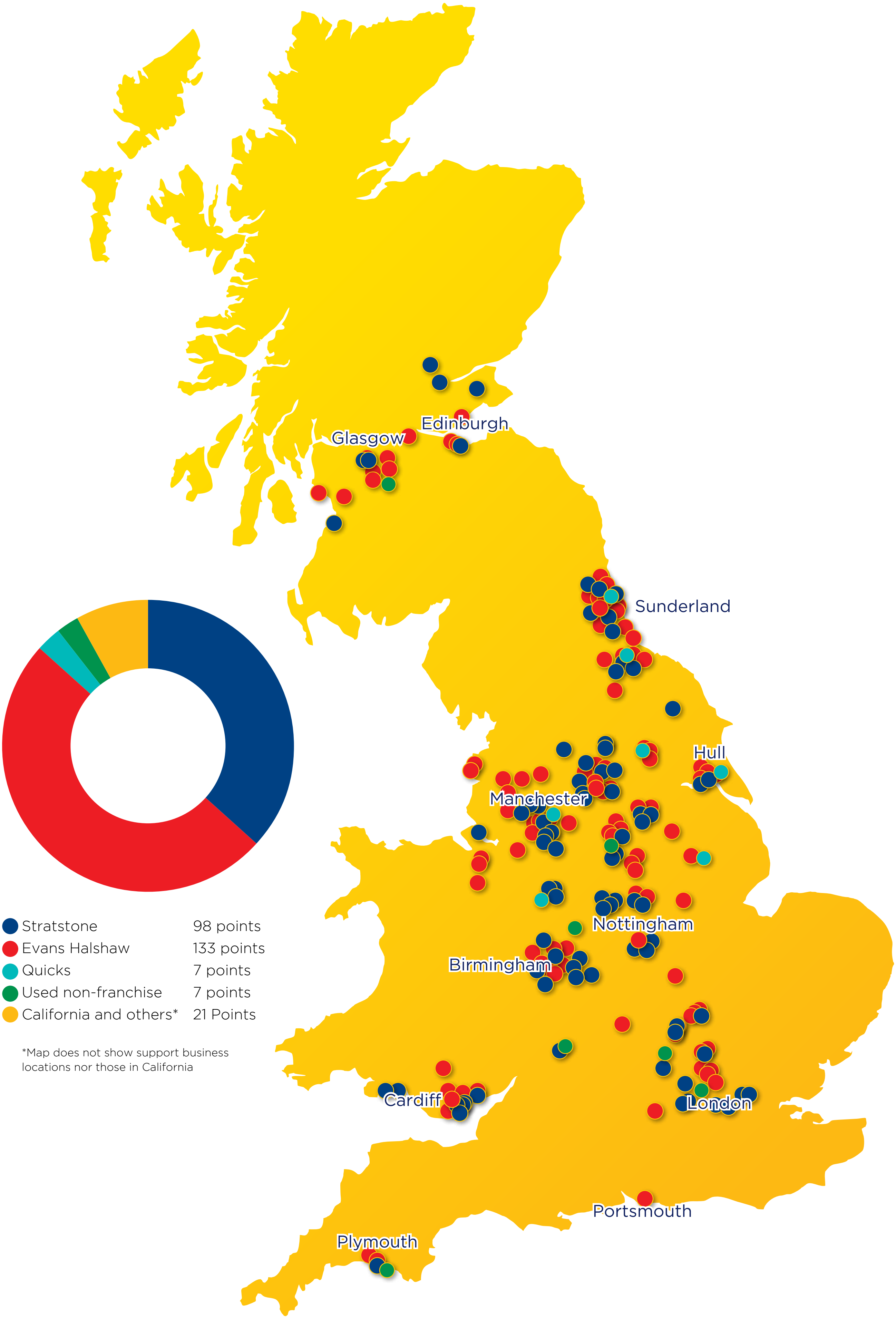
240
FRANCHISE POINTS

£3.6bn
REVENUE

246,000
NEW & USED UNIT SALES

26
WORLDWIDE BRANDS

All New Range Rover available from Stratstone.com



Stratstone	98 points
Evans Halshaw	133 points
Quicks	7 points
Used non-franchise	7 points
California and others*	21 Points

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

PENDRAGON AT A GLANCE

Pendragon is the UK's leading automotive retailer with 240 franchise points

OUR MARKETS

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

KEY MARKETS

PRIMARY

NEW
Retailing a new vehicle

USED
Retailing a used vehicle

AFTERSALES
Completing service and repair

SECONDARY

IT Dealer Management Systems

Parts Wholesale

Leasing & Contract Hire

KEY BUSINESSES

Stratstone The UK's leading prestige motor car retailer with 98 franchise points including: Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, Morgan, MINI, Porsche and Smart. This segment also contains the retail and service outlets for DAF, Nissan and Renault commercial vehicles under the Chatfields brand name.

Evans Halshaw The UK's leading volume motor car retailer with 133 franchise points including: Chevrolet, Citroen, Dacia, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall.

Quicks Used car retailer with 7 points in the UK.

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

Leasing Fleet leasing and contract hire solutions in the UK.

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

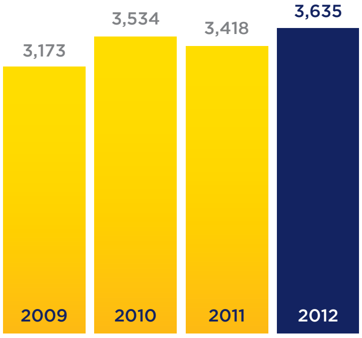
Pinewood In-house software company which supplies dealer management I.T. in the UK and South Africa.

Vauxhall Adam available from evanshalshaw.com

FINANCIAL HIGHLIGHTS

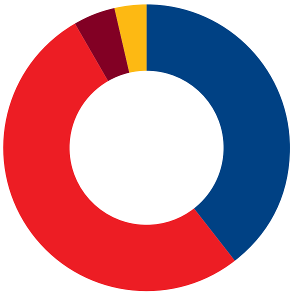
UNDERLYING REVENUE

£3,635m



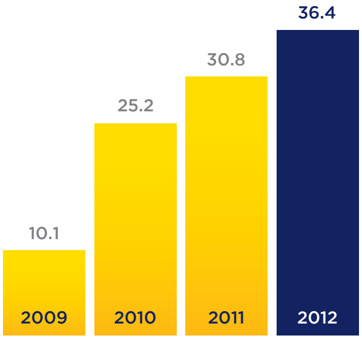
UNDERLYING REVENUE BY SEGMENT

Stratstone	£1,439m
Evans Halshaw	£1,900m
California	£173m
Support/Quicks	£123m



UNDERLYING PROFIT BEFORE TAX

£36.4m



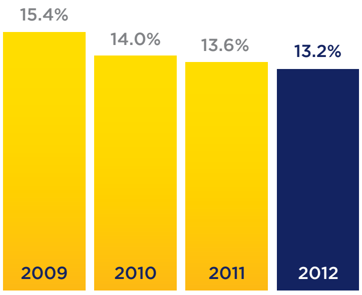
UNDERLYING OPERATING PROFIT

£71.8m

Stratstone	£25.9m
Evans Halshaw	£27.0m
California	£5.3m
Support/Quicks	£13.6m

GROSS MARGIN

13.2%

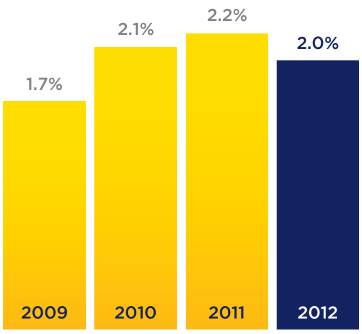


GROSS PROFIT BY SECTOR

Aftersales	£188.1m
Used	£138.5m
New & Trade / Wholesale	£123.6m
Support	£31.1m

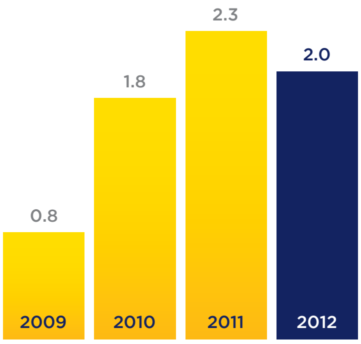
UNDERLYING OPERATING MARGIN

2.0%



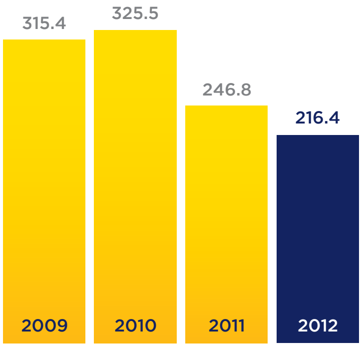
UNDERLYING EPS

2.0p



NET DEBT

£216.4m



Note: Underlying results exclude items that have non-trading attributes due to their size, nature or incidence.

CHAIRMAN'S STATEMENT

MIKE DAVIES

Overview

Pendragon has performed well in a recovering vehicle market and continues to grow its online presence with Stratstone.com, Evanshalshaw.com and Quicks.co.uk. Pendragon continues to perform in line with expectations.

Our Markets

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

The aftersales opportunity remains at around the 32 million vehicle level in 2012. Encouragingly there are signs that the nearly new vehicle parc has flattened and is expected to show modest growth in 2013. The used vehicle market remains around 6.8 million, with around half of these transactions being completed from franchise dealers and the balance being completed by independent dealers and private individuals. The new vehicle market grew by 5% in 2012 and had a market size of 2.045 million units. The Society of Motor Manufacturers and Traders ("SMMT") is currently expecting that the new car market will grow by 0.6% in 2013 to 2.057 million units.

Our Business

The Group has 240 franchise points, a further 14 dedicated used car locations and also a further 12 locations for its support businesses. Pendragon's core vehicle businesses operate for the sales and servicing of new and used vehicles under the brands of Stratstone.com, for prestige brands, and Evanshalshaw.com, for the volume brands. The Group has a used vehicle and aftersales operation branded Quicks.co.uk, together with a franchised business in California. The Group also has a number of support businesses in the UK.

The Group is divided operationally into eight segments. The core vehicle and aftersales businesses consist of two segments, Stratstone and Evans Halshaw. We are reporting for the first time this year a separate segment for our Quicks used car operation which was previously shown within the non-underlying results. Additionally we have our California vehicle and aftersales business. Support businesses consist of the following four segments: Leasing, Quickco, Pinewood and Central. The Chatfields commercial van and trucks business is now included in the Stratstone segment.

Our Performance

The Group has achieved a £5.6 million increase in underlying profit before tax which is a strong improvement on 2011. The group continues to enhance its gross margin in aftersales and used and has maintained its new gross margin. A key highlight of the results is the growth in like for like used volumes of 7% with an associated improvement in used margin. The Group remains committed to its Debt : Underlying EBITDA target which remains on track, reducing debt by £30.4 million over the prior year.

Our Strategy and Progress

The Group remains focussed on maximising returns within three key sectors, reflecting their level of contribution to the Group: aftersales, used and new. The Group continues to grow its online business which remains a core strategic pillar for success. The Group's key strategic pillars for success are: number one online motor retailer, value pricing, national footprint and scale with a superior IT platform.

Directors' Report and Boards

The directors' report can be found on pages 38 to 47. The continuity and experience of the management team remains a key strength for the Group working with our established partners.

Financial Statements

The detailed financial statements can be found on pages 83 to 163.

Outlook

The Group's continuing growth of its online brands of Stratstone.com, Evanshalshaw.com and Quicks.co.uk has been a key differentiator for our performance in the year. We expect that the Group will continue to gain market share in the used sector and maintain used margin in 2013. We are encouraged by the growth in the new vehicle sector in both the volume and prestige markets and expect further growth in 2013. The continued growth in the parc of vehicles up to three years old should be beneficial to the Group's aftersales sector in the next three years.

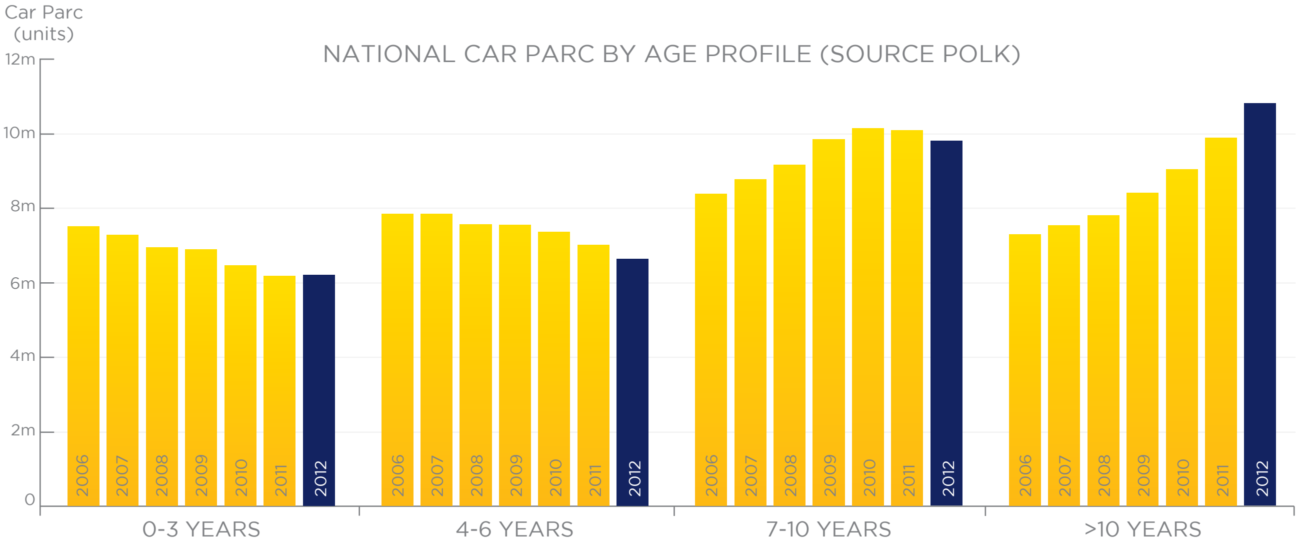
We are encouraged by the improving trajectory of net debt and the associated Debt : Underlying EBITDA ratio. Since 2008 net debt has reduced by 39% and we continue to be focussed on achieving our Debt : Underlying EBITDA target of less than 1.5. The Board has proposed a return to the dividend list and expects to maintain a progressive dividend policy for the future.

Mike Davies
Chairman

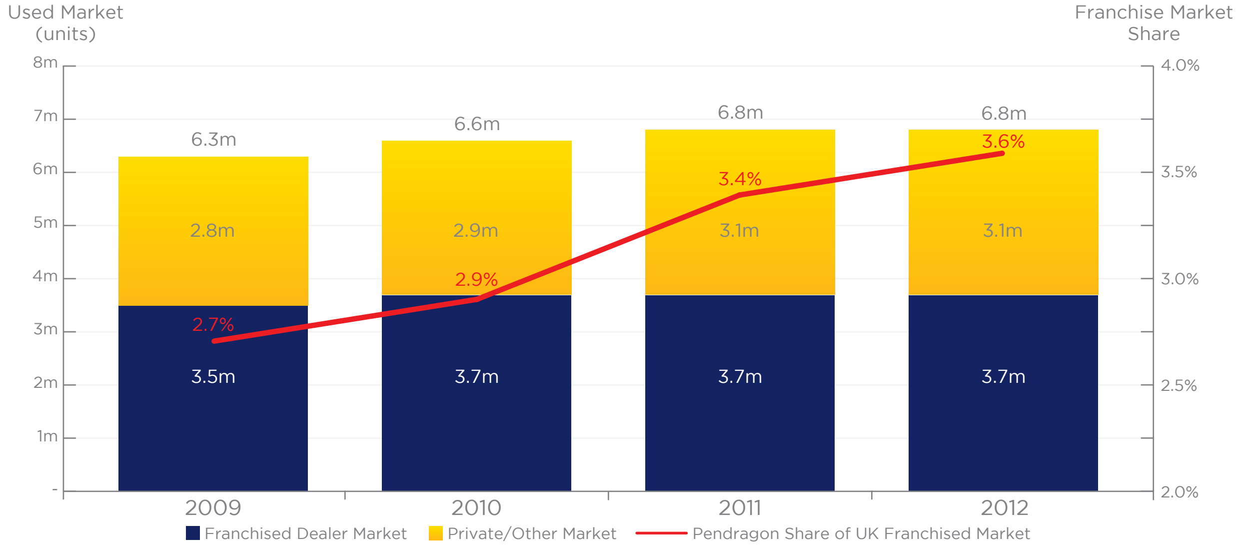
Ford Focus ST available from evanshalshaw.com

OUR MARKETS

AFTERSALES

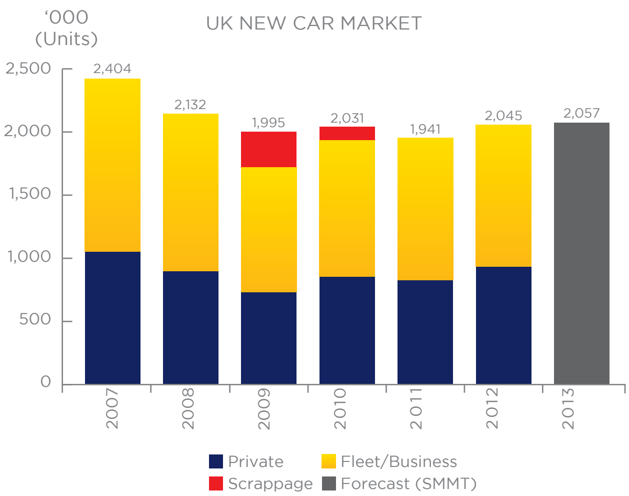


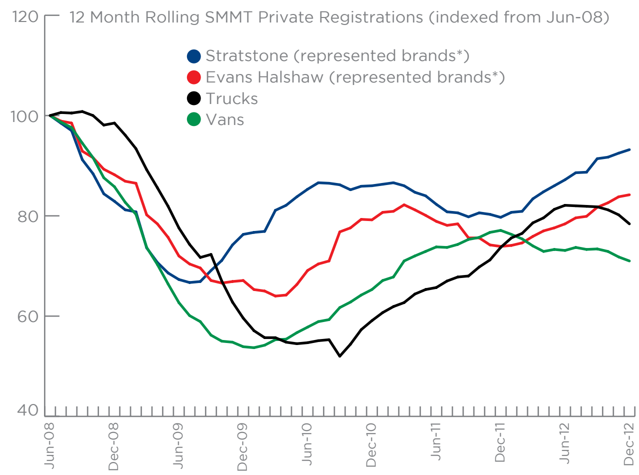
USED



Source: 2009 to 2011 Used market figures are from the BCA 2012 Used Car Report. 2012 Used market assumed at same level as 2011 market

NEW





*excluding scrappage weighted on Pendragon market share

OUR MARKETS

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

Sector Financial Highlights: The following table shows the total revenue, gross profit and gross margin by sector for each of the years ended 31 December 2012 and 31 December 2011:

Sector Performance	2012 Revenue £m	2012 Gross profit £m	2012 Gross margin %	2011 Revenue £m	2011 Gross profit £m	2011 Gross margin %
Aftersales	**307.8**	**188.1**	**61.1%**	328.4	194.4	59.2%
Used	**1,399.7**	**138.5**	**9.9%**	1,329.9	127.8	9.6%
New	**1,654.7**	**129.0**	**7.8%**	1,515.9	119.8	7.9%
Trade/Wholesale	**196.8**	**(5.4)**	**(2.7%)**	225.3	(2.7)	(1.2%)
Motor Group	**3,559.0**	**450.2**	**12.6%**	3,399.5	439.3	12.9%
Support Businesses	**76.1**	**31.1**	**40.9%**	66.3	31.3	47.2%
Total	**3,635.1**	**481.3**	**13.2%**	3,465.8	470.6	13.6%

Aftersales Services Market: Aftersales encompasses the service, maintenance and repair of motor vehicles including bodyshop repairs and the retailing of parts and other motor related accessories. The main determinant of the aftersales market is the overall size of the car parc. The car parc represents the number of cars in use on UK roads and has typically been around 32 million vehicles in each of the last three years.

For the Group, the second determinant of the aftersales market opportunity is the age profile of the car parc. Typically around 19% of the car parc is represented by less than three year old vehicles, around 20% is represented by four to six year old vehicles and the balance is greater than seven years old. Given the Group's significant new car presence, it has traditionally operated more in the less than three year old vehicle market than in the greater than three year old market profile. Over the last three years the Group has also targeted the over three year old vehicle market through our Vehicle Health Check process and associated initiatives such as service plans and value pricing. The demand for servicing and repair activity is less impacted by economic conditions than our other sectors, as motor vehicles require regular maintenance and repair for safety, economy and performance reasons. The overall trend of the market is also being impacted by the higher reliability of vehicles, leading to lower warranty repair activity.

Aftersales Sector Performance: The Group's like for like retail labour sales are flat year on year which is an encouraging sign that the car parc has plateaued. Warranty work continues to be in decline and we have reduced the level of bodyshop work which has reduced overall turnover. Underlying aftersales gross profit margin increased from 59.6% in 2011 to 61.1% in 2012. The Group's underlying aftersales gross profit reduced by £6.3 million in the year. On a like for like basis aftersales gross profit reduced by £4.2 million.

Used Vehicle Sector Market: The used vehicle sector comprises the selling of vehicles from one party to another for all vehicles except newly registered vehicles. Currently, the annual number of used vehicle sales is around 6.8 million, with around half of these transactions being completed by franchised dealers and the balance being completed by independent dealers and private individuals.

The latest market data from Experian, to quarter three 2012, illustrated a flat market. It is expected that, when available, quarter four 2012 data will show the market has been flat for the whole year. However, it is the Group's expectations that there will be modest growth in 2013.

Used Vehicle Sector Performance: In the last three years, the Group has increased the like for like performance of used vehicle volume by nearly 40%, reflecting the success of its online strategy, national footprint and value pricing. In 2012, the Group's like for like used volume increased by a further 6.5%. The Group has improved gross margin from 9.7% to 10.0% in the year, on a like for like basis, which has further enhanced profitability. Used gross profit increased by £10.7 million and on a like for like basis increased by £11.8 million.

OUR MARKETS

New Vehicle Sector Market: The new vehicle sector consists of the first registration of cars and commercial vehicles. The UK car market increased by over 5% in 2012 and had a market size of 2.045 million units. This is the largest the UK car market has been since 2008, when the car market was 2.132 million units, in 2007 the UK car market was 2.404 million units. The Society of Motor Manufacturers and Traders ("SMMT") are currently expecting that the new car market will grow by 0.6% in 2013 to 2.057 million units.

The UK new car market is primarily divided into retail and fleet markets. The retail market is direct selling of vehicle units to individual consumers and operates at a higher margin than the fleet market. The retail market is the key market opportunity for the Group and represents just less than half of the total UK market. The fleet market represents selling of multiple vehicles to businesses and is predominantly transacted at a lower margin and consumes higher levels of working capital than retail.

The following table summarises the UK new car market splitting the retail and fleet components for each of the years ended 31 December 2012 and 31 December 2011:

UK New Car Market	2012 '000	2011 '000	YOY change %
Retail vehicle market	929.4	823.1	13.0%
Fleet vehicle market	1,115.2	1,118.2	(0%)
Total New vehicle market	**2,044.6**	**1,941.3**	**5.0%**

The UK commercial vehicle market, consisting of light commercials and trucks, had a market size of 285,000 new units in 2012. The truck market increased by 6% and light commercials market decreased by 8% in the year. The SMMT's expectations for 2013 are that the light commercial vehicle market will increase by 5% as a result of latent demand and new product supply.

The Group has a small representation in California. The USA new car market was 14.4 million in 2012 which was an increase of 13% over 2011. The National Automobile Dealers' Association expects that this will grow to over 15.4 million vehicles in 2013.

New Vehicle Sector Performance: Like for like our retail car volume increased by 15% year on year and overall retail volume (including commercials) increased by 12%. New vehicle gross profit increased by £9.2 million for the year ended 31 December 2012 compared to 2011 and increased by £9.6 million on a like for like basis. As outlined above, the Group is more focussed on the retail sector than the fleet sector. On a like for like basis the Group increased its new retail gross profit by £11.3m, decreased Motability gross profit by £1.2 million and decreased fleet gross profit by £0.5 million. Our retail margin on car vehicle sales was maintained year on year. Due to some dilution of margin from a higher mix of lower margin fleet activity, overall new vehicle margin fell from 7.9% in 2011 to 7.8% in 2012 on a like for like basis.

Support Businesses: The support businesses operate in the following markets; Contract hire and leasing markets (Contracts and Leasing), Dealer management IT markets (Pinewood) and Parts wholesale (Quickco). An overview of these markets and the Group's performance within them is shown below.

Contract Hire Market: We operate a contract hire and leasing business in the UK. Profits are generated during the lease and when we sell the used car after it is returned to us at the end of the lease period.

Contract Hire Performance (Leasing Segment): The contract hire and leasing business generated an operating profit of £6.9 million compared to £6.5 million in the prior period due to increased profit on end of lease disposals. The fleet size stood at 9,700 at 31 December 2012 (2011 : 9,800).

Dealer Management Systems Market: In the UK, the market for dealer management systems is served by three main suppliers and the market opportunity is determined by the number of franchise points. We operate extensively in the UK under the 'Pinewood Technologies' brand.

Dealer Management Systems Performance (Pinewood Segment): Operating profit for the period is broadly in line with the prior year at £9.1 million (2011 : £8.8 million). Pinewood provides the Group with a very stable income stream and is growing users year on year.

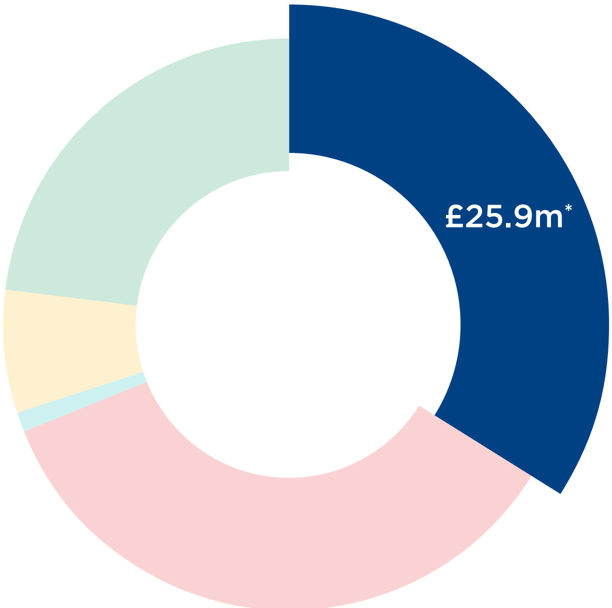
Parts Wholesale Market: The market consists of wholesale motor vehicle parts suppliers who supply to franchised and non-franchised retailers. The market is scale driven but is highly fragmented owing to the large number of suppliers.

Parts Wholesale Performance (Quickco Segment): Quickco, our independent genuine parts wholesale business, achieved an operating profit of £1.4 million in 2012 versus £1.9 million in 2011.

Vauxhall Mokka available from evanshalshaw.com

OUR BUSINESS - STRATSTONE.COM

2012 FINANCIAL HIGHLIGHTS

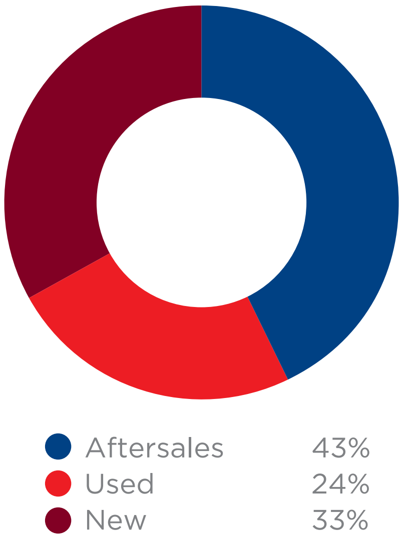


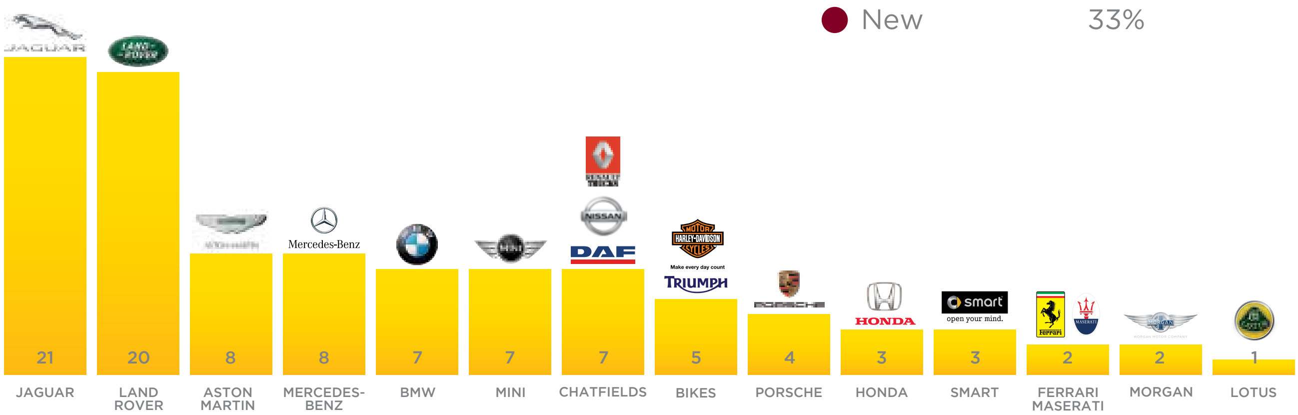
*Share of Group Operating Profit.

OPERATING PROFIT	£25.9m
OPERATING MARGIN	1.8%
GROSS PROFIT	£179.2m
GROSS MARGIN	12.5%

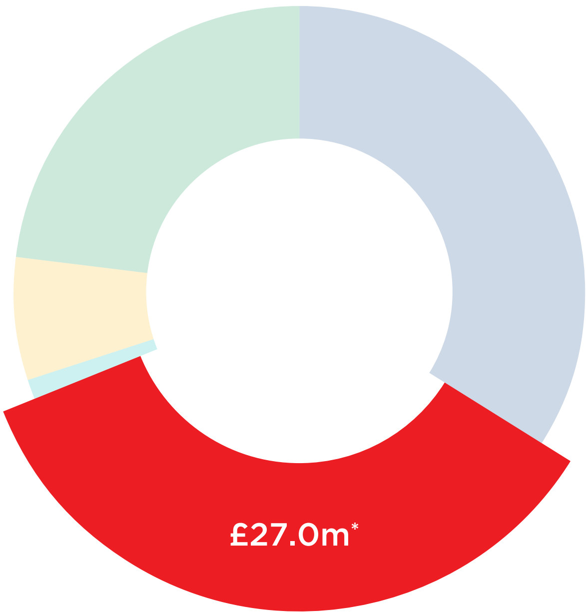
Stratstone is one of the UK's leading prestige motor car retailers with 98 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Morgan, Porsche and Smart as well as five motorcycle franchises. This segment also contains the retail and service outlets for DAF, Nissan and Renault commercial vehicles under the Chatfields brand name.

SPLIT OF GROSS PROFIT BY SECTOR





2012 FINANCIAL HIGHLIGHTS

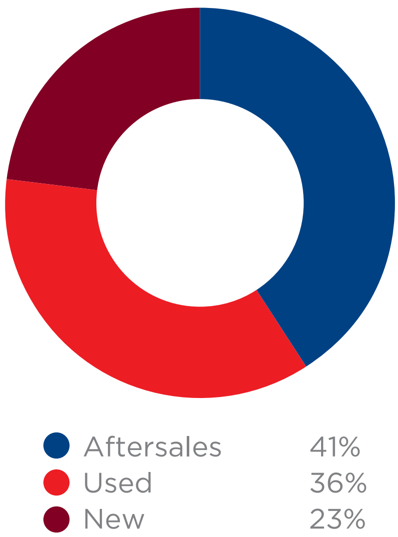


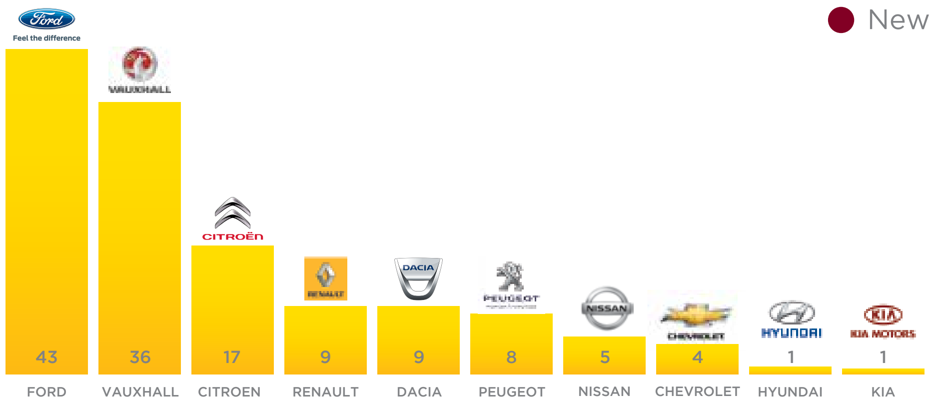
*Share of Group Operating Profit.

OPERATING PROFIT	£27.0m
OPERATING MARGIN	1.4%
GROSS PROFIT	£239.0m
GROSS MARGIN	12.6%

Evans Halshaw is the UK's leading volume motor car retailer, with 133 franchise points. Evans Halshaw holds franchises to retail and service Chevrolet, Citroen, Dacia, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall. SEAT was added in January 2013.

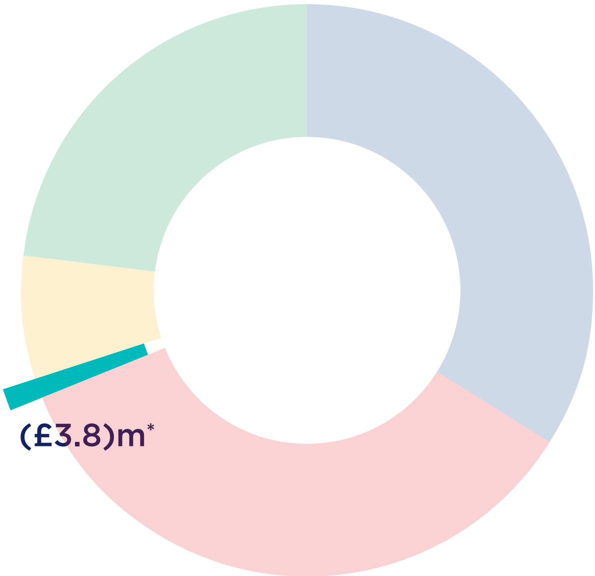
SPLIT OF GROSS PROFIT BY SECTOR





OUR BUSINESS - QUICKS.CO.UK

2012 FINANCIAL HIGHLIGHTS



*Share of Group Operating Profit.

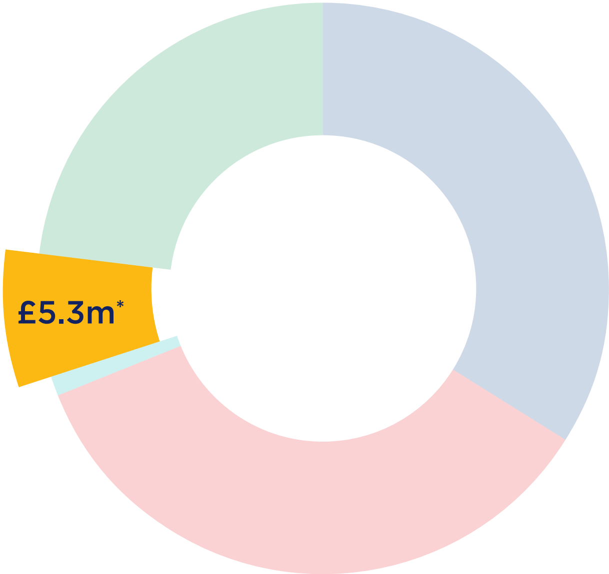
OPERATING LOSS	(£3.8)m
OPERATING MARGIN	(8.0)%
GROSS PROFIT	£3.7m
GROSS MARGIN	8.0%

Quicks Used car operation with seven sites in the UK.

SPLIT OF GROSS PROFIT BY SECTOR

OUR BUSINESS - CALIFORNIA

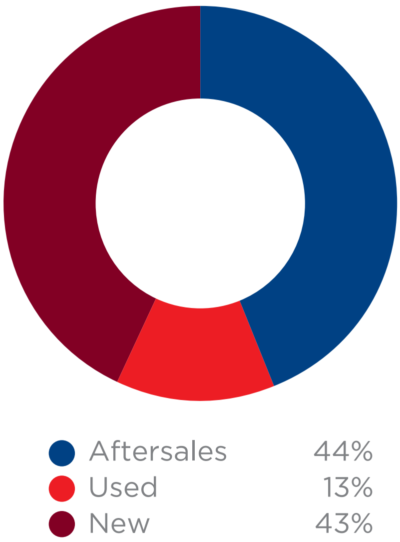
2012 FINANCIAL HIGHLIGHTS



*Share of Group Operating Profit.

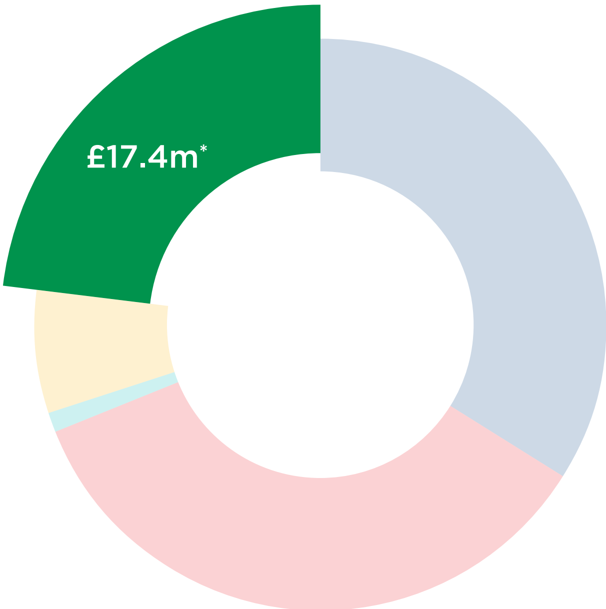
OPERATING PROFIT	£5.3m
OPERATING MARGIN	3.0%
GROSS PROFIT	£28.3m
GROSS MARGIN	16.4%

SPLIT OF GROSS PROFIT BY SECTOR



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

2012 FINANCIAL HIGHLIGHTS



OPERATING PROFIT	£17.4m
OPERATING MARGIN	22.9%
GROSS PROFIT	£31.1m
GROSS MARGIN	40.8%

*Share of Group Operating Profit.

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

pinewood

Pendragon Contracts

Quickco AUTOMOTIVE PARTS & ACCESSORIES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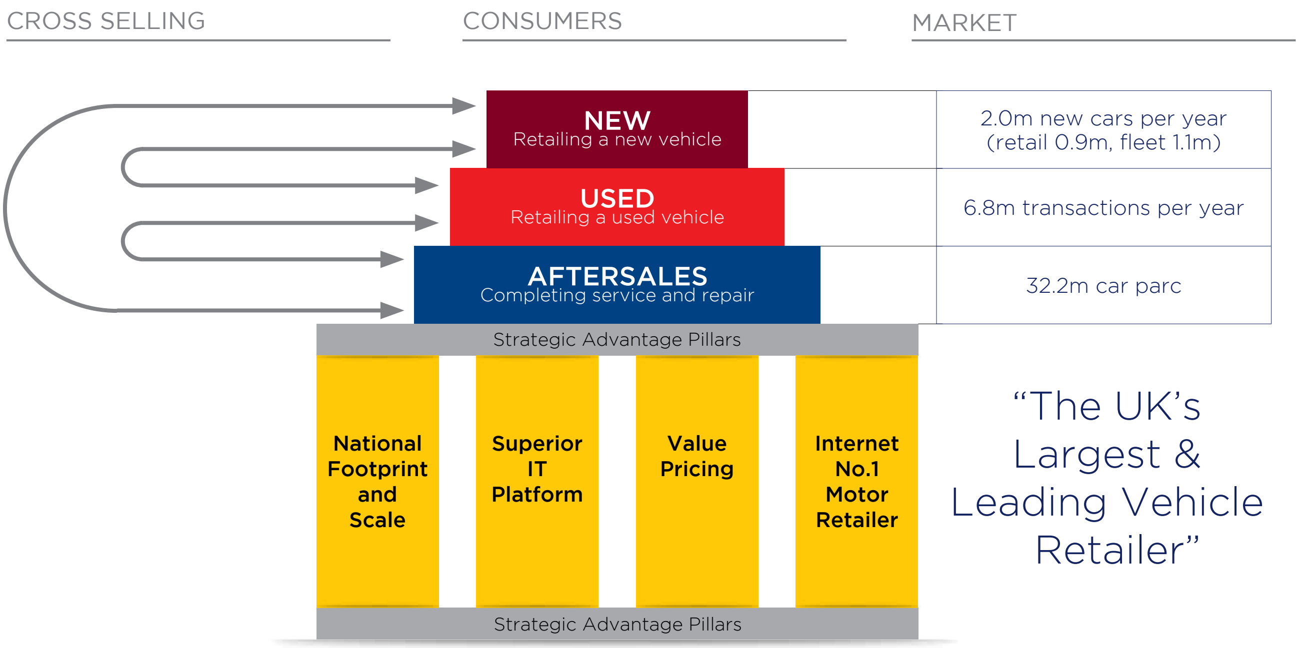
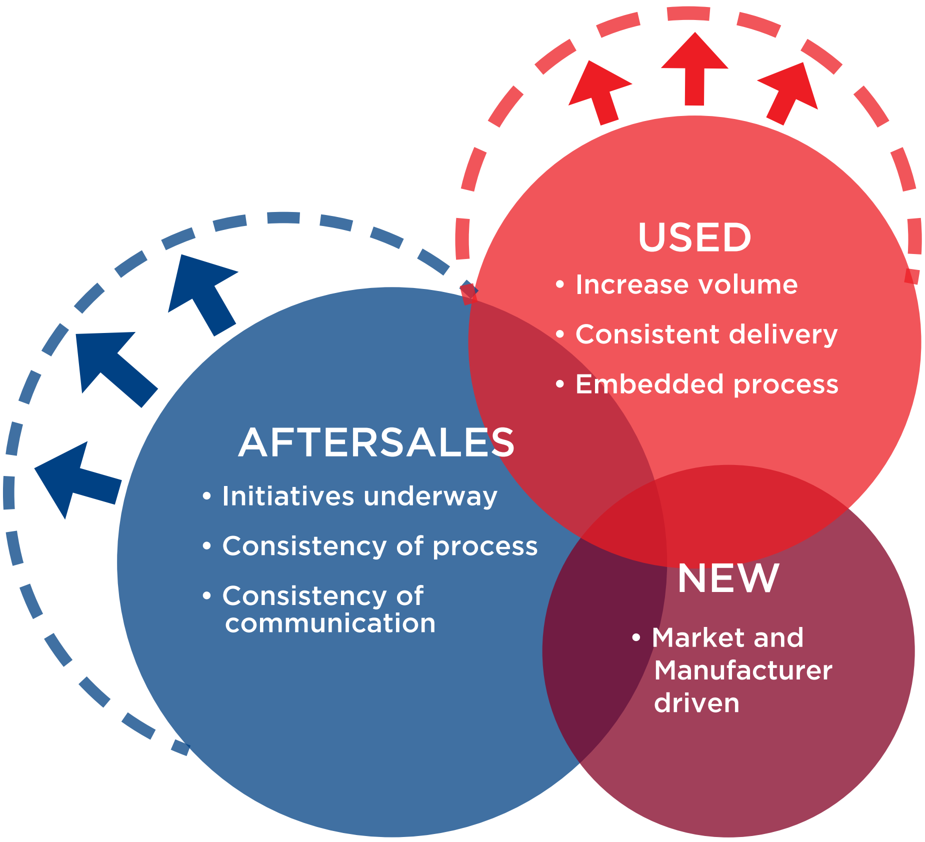
OUR BUSINESS MODEL AND STRATEGY

BUSINESS MODEL



"The UK's Largest & Leading Vehicle Retailer"

STRATEGY



OUR BUSINESS MODEL AND STRATEGY

STRATEGY

The Group remains focussed on maximising returns within three key sectors, reflecting their level of contribution to the Group, which are: aftersales, used and new. To achieve success in these sectors, the Group has previously communicated its "strategic pillars". These remain vital for success in achieving the Group's objectives in the medium term and are: number one online motor retailer, value pricing, national footprint and scale and a superior IT platform.

Online channels remain a key strategic pillar for the Group and are a key differentiator for its performance in the market. Online visitors to Stratstone.com, Evanshalshaw.com and Quicks.co.uk increased by 18% over the prior year and have increased by 87% over the last three years. Website visitors for Stratstone.com and Evanshalshaw.com are in excess of ten million for the year ended 31 December 2012. The Group continues to invest resource into a number of projects to support our online pillar. An example of the success of our media programs was the 'James Bond – license to drive' initiative which generated over 200,000 online visitors, 11,000 likes on Facebook.com and over 3,000 tweets on Twitter.com.

Aligned with this strong online and social media offering, the Group's second strategic pillar is a 'value pricing' offer for consumers. Our value pricing provides the consumer with the assurance of frequently researched prices to ensure we offer the best pricing proposition in the market. This has been important for the Group and is a contributory factor in Evanshalshaw.com achieving a record 100,000 used vehicle sales in 2012.

Our third and fourth strategic pillars are key enablers for achieving the Group's objectives and are: a national footprint and scale and a superior IT platform. Our national footprint enables us to fulfil the needs of consumers locally to their home or business. This, coupled with scale, provides a true differentiator from our peers in the industry. Within the new car market, our large balanced brand portfolio ensures that we are insulated from the product cycles of the vehicle manufacturers we represent, hence any franchises which are impacted by a falling market share tend to be compensated by franchises which have increased market share. Our scale also provides a number of efficiencies and economies of scale within procurement, fixed overheads, shared services and central marketing.

Pinewood provides the Group with a superior integrated IT platform with which to monitor, control, report and analyse the Group's result and progress against objectives, Pinewood also has a growing external customer base. The IT system remains a key differentiator for the success of the Group.

ACCOLADES

BMW 6 Series Gran Coupé from Stratone.com

BMW DEALER OF THE YEAR

The Group is delighted to announce that out of over 140 BMW retail dealers in the UK, for the second year running, the Group has won the prestigious 'BMW retailer of the year award' this time for Stratstone Derby BMW. The award results from exceeding targets set in nine different operational areas across its business. Tim Abbott, managing director of BMW Group UK, said: "This award represents the supreme accolade for BMW dealers in the UK in terms of outstanding customer service and business performance. Stratstone Derby's efforts, together with our entire dealer network, have helped us continuously maintain BMW's position as the UK's number one premium car company and the number one franchise. With BMW dealers investing more than £60 million in modern, customer –friendly retail facilities during 2012, our 5-Star customer rating system for sales and service, and a range of other customer initiatives, we now have the new Customer Champion award which is one of the most coveted in our recognition programme. There is absolutely no doubt that satisfied customers drive the success or failure of businesses". The award is a significant achievement for the Group and testament to the quality and dedication of our team members and remarkably follows the awards of retailer of the year in 2011 for both Stratstone Tyneside BMW and Stratstone Derby MINI.

Stratstone Derby BMW Dealer Principal, Chris Astle

Mercedes-Benz A-Class from Stratone.com

MERCEDES-BENZ DEALER OF THE YEAR

The Group has been named the coveted accolade of 'Retailer of the Year' and 'Service and Parts Team of the Year' at the Mercedes-Benz 2012 retailer of the year awards for the Glasgow business and surrounding area. Retailers were measured on a number of performance indicators, including sales performance and customer satisfaction levels as well as the commitment they showed to the brand and the support they provide to Mercedes-Benz UK. Retailers really had to excel in every way. Marcus Breitschwerdt, president and CEO of Mercedes-Benz UK, added: "2012 was a record-breaking year for Mercedes-Benz in the UK and smart sales increased as well. We couldn't have done it without the support, commitment and dedication of each and every colleague working with our retailer partners around the country. We have celebrated our success and now we are setting our sights firmly on 2013." The accolade of retailer of the year is a significant achievement for the Group and is an excellent achievement for the team members in and around Glasgow.

Mercedes-Benz West of Scotland Leadership Team

Renault Clio available from evanshalshaw.com

INTRODUCTION

Pendragon is the leading automotive retailer in the UK and has 240 franchise points and a further 14 dedicated used car locations. The Group also has a further 12 locations for its support businesses. Pendragon sells and services a broad range of new and used cars and commercial vehicles in the UK, has an operation in California and a substantial presence in the UK vehicle leasing, wholesale parts and dealership IT system markets.

Pendragon's core vehicle businesses operate for the sales and servicing of new and used vehicles under the brands of Stratstone.com, for prestige brands, and Evanshalshaw.com, for the volume brands. The Group has a used vehicle and aftersales operation branded Quicks.co.uk, together with a franchised business in California. The Group also has a number of support businesses in the UK.

The Group's franchise portfolio is reviewed on a regular basis. During the year, thirteen new franchise points were added and eight franchise points were closed or disposed of. The thirteen new franchise points added during the year were: Leeds BMW, Leeds MINI, Edinburgh Morgan, Stourbridge Morgan and nine Dacia franchise points.

Revenue and Volumes: Underlying revenue increased by £216.9 million for the twelve months to 31 December 2012 compared to 2011. On a like for like basis, revenue increased by £196.5 million largely owing to increases within our used and new vehicle sectors. On a like for like basis, our used sector has increased revenue by £87.4 million and our new sector has increased revenue by £147.6 million.

On a like for like basis, used volumes increased 7% and new retail volumes increased 11% year on year.

Gross Margin: On a like for like basis, the Group has increased used vehicle margin to 10.0% from 9.7%. New vehicle margin was 7.8% in the year versus 7.9% in the prior year. Within the new vehicle sector, like for like new retail margin increased to 10.6% from 10.3%. This was offset by a higher mix of lower margin fleet activity over the prior year. Aftersales margin continues to follow an upward trend as a result of improved labour efficiencies over the prior year, up to 62.2% from 59.7% on a like for like basis. Overall gross margin for the Group fell from 13.7% to 13.2% due to the relative mix of used, new and aftersales levels.

Gross Profit: The Group is delighted to report that underlying gross profit increased by £13.2 million and like for like gross profit increased by £13.9 million. The increases in gross profit are largely a result of improved performance in the used and new sectors. On a like for like basis, used gross profit increased by £11.8 million and new gross profit increased by £9.6 million. Aftersales gross profit fell by £4.2 million on a like for like basis. Evans Halshaw performance was particularly pleasing, up £8.6 million on a like for like basis, largely as a result of used car activity. Stratstone experienced a strong increase in new car gross profit of £5.6 million on a like for like basis.

Operating Costs: Group underlying operating costs have increased by £15.8 million and have increased by £12.6 million on a like for like basis. Of this like for like increase, approximately £2.6 million is attributable to new, used and aftersales activity levels, with the remainder principally comprising of redundancy costs, property-related costs for heating, electricity, power and rates offset by a reduction in warranty and property provisions.

Operating Profit: Underlying operating profit was £71.8 million in 2012 compared to £74.4 million in 2011. The underlying operating margin was 2.0% in 2012 versus 2.2% in 2011. On a like for like basis, operating profit increased by £1.3 million over the prior year to £76.1 million and operating margin was maintained at 2.2%.

Net Debt and Cash Flow: The Group's net debt was £216.4 million at the end of the financial year, which is a £30.4 million reduction in debt. The Group remains on target to achieve its Debt : Underlying EBITDA target of less than 1.5 times by the end of 2014. At 31 December 2012, the Debt : Underlying EBITDA ratio was 2.0 (2011 : Debt : Underlying EBITDA 2.2).

Trevor Finn, Chief Executive, commented:

"The Group has performed strongly in a recovering vehicle market and Evanshalshaw.com, Stratstone.com and Quicks.co.uk continue to enhance our online performance. Having strong brands and online presence is key to success in the retail market. It is therefore pleasing that website visitors have increased by 18% in the year and by 87% in the last three years. The continued investment in our online strategy has established a strong platform for the business. The Group is encouraged by the improvement in the used and new vehicle departments and remains on track with its debt reduction targets. The Group had a strong second half in 2012 and is well positioned for 2013. The Board is pleased to announce a proposed final dividend of 0.1p per share."

SEGMENTAL PERFORMANCE

The Group is divided operationally into eight segments. The core vehicle and aftersales businesses consist of two segments, Stratstone and Evans Halshaw. We are reporting for the first time this year a separate segment for our Quicks used car operation which was previously shown within the non-underlying results. Additionally we have our California vehicle and aftersales business. Support businesses consist of the following four segments: Leasing, Quickco, Pinewood and Central. The Chatfields commercial van and trucks business is now included in the Stratstone segment.

SEGMENTAL FINANCIAL HIGHLIGHTS

The following table shows the total revenue and gross profit by segment of the Group's results for each of the years ended 31 December 2012 and 31 December 2011:

	2012		2011	
Segment Results	**Revenue £m**	**Gross profit £m**	Revenue £m	Gross profit £m
Stratstone	**1,438.9**	**179.2**	1,333.6	174.6
Evans Halshaw	**1,900.1**	**239.0**	1,848.7	233.7
Quicks	**46.9**	**3.7**	47.6	2.5
California	**173.1**	**28.3**	169.6	28.5
Support Businesses	**76.1**	**31.1**	66.3	31.3
Total	**3,635.1**	**481.3**	3,465.8	470.6

STRATSTONE

Stratstone Stratstone is one of the UK's leading prestige motor car retailers with 98 franchise points. Stratstone holds franchises to retail and service Aston Martin, BMW, Ferrari, Honda, Jaguar, Land Rover, Lotus, Maserati, Mercedes-Benz, MINI, Morgan, Porsche and Smart as well as five motorcycle franchises. This segment also contains the retail and service outlets for DAF, Nissan and Renault commercial vehicles under the Chatfields brand name. The following table shows the underlying results for Stratstone for each of the years ended 31 December 2012 and 31 December 2011:

	2012			2011*		
Stratstone By Sector	**Revenue £m**	**Gross profit £m**	**Gross margin %**	Revenue £m	Gross profit £m	Gross margin %
Aftersales	**138.6**	**77.7**	**56.0%**	142.1	79.0	55.6%
Used	**585.6**	**43.9**	**7.5%**	556.0	42.8	7.7%
New	**665.0**	**59.5**	**8.9%**	591.8	53.6	9.0%
Trade/Wholesale	**49.7**	**(1.9)**	**(3.9%)**	43.7	(0.8)	(1.8%)
Total	**1,438.9**	**179.2**	**12.5%**	1,333.6	174.6	13.1%

	2012			2011*		
Stratstone Underlying	**Existing**	**Disposed**	**Total**	Existing	Disposed	Total
Gross Profit Per Unit £	**n/a**	**n/a**	**1,925**	n/a	n/a	2,040
Total Units '000	**51.2**	**1.5**	**52.7**	43.6	3.3	46.9
Operating Profit £m	**28.4**	**(2.5)**	**25.9**	31.3	(2.4)	28.9

*Restated to include Chatfields for comparative purposes.

OUR STRATEGY & PROGRESS

STRATSTONE *Continued*

Revenues were up by 7.9% year on year due primarily to increases in new and used volumes. Like for like used volumes increased significantly by 13.6% and new retail volumes increased by 20.2%. New volume increases reflected strong performance from the BMW, Land Rover, Mercedes-Benz, MINI and Porsche brands. Like for like used margin fell from 7.8% in 2011 to 7.6% in 2012. However, the first half used vehicle gross margin was 7.1% (back 0.8% on the prior year) compared to a second half gross margin of 8.2% (up 0.5% on the prior year). Like for like aftersales gross margins improved slightly on the prior year to 56.5%. The aftersales sector gross profit decreased by just £0.9 million on a like for like basis due to the impact of reduced warranty work.

The following table summarises the new car market for the brands that Stratstone represents for each of the years ended 31 December 2012 and 31 December 2011:

Stratstone New Car Market '000	Year Ended 31 December 2012	Year Ended 31 December 2011	YOY Change %
Retail Vehicle Market	204.2	180.4	13.2%
Fleet Vehicle Market	199.1	184.0	8.2%
Total New Vehicle Market	**403.3**	**364.4**	**10.7%**

Our new retail vehicle volumes (excluding the commercial vehicle brand of Chatfields), our primary area of focus, was up by 18.4% compared to a national increase of 13.2% for the brands that Stratstone represents on a like for like basis. Overall Stratstone new vehicle volumes on a like for like basis were up 14.0%.

EVANS HALSHAW

Evans Halshaw Evans Halshaw is the UK's leading volume motor car retailer, with 133 franchise points. Evans Halshaw holds franchises to retail and service Chevrolet, Citroen, Dacia, Ford, Hyundai, Kia, Nissan, Peugeot, Renault and Vauxhall. SEAT was added in January 2013.

The following table shows the results for Evans Halshaw for each of the years ended 31 December 2012 and 31 December 2011:

Evans Halshaw By Sector	2012 Revenue £m	2012 Gross profit £m	2012 Gross margin %	2011 Revenue £m	2011 Gross profit £m	2011 Gross margin %
Aftersales	**142.2**	**97.9**	**68.9%**	161.3	103.3	64.0%
Used	**733.4**	**86.9**	**11.8%**	698.4	78.5	11.2%
New	**888.6**	**57.2**	**6.4%**	818.3	53.4	6.5%
Trade/Wholesale	**135.9**	**(3.0)**	**(2.2%)**	170.7	(1.5)	(0.9%)
Total	**1,900.1**	**239.0**	**12.6%**	1,848.7	233.7	12.6%

Evans Halshaw Underlying	2012 Existing	2012 Disposed	2012 Total	2011 Existing	2011 Disposed	2011 Total
Gross Profit Per Unit £	**n/a**	**n/a**	**775**	n/a	n/a	769
Total Units '000	**181.3**	**0.8**	**182.1**	166.0	3.7	169.7
Operating Profit £m	**28.1**	**(1.1)**	**27.0**	23.7	(1.1)	22.6

EVANS HALSHAW *Continued*

Total revenues increased by 2.8% during the year due to improvements in the new and used sectors within the division. On a like for like basis, new vehicle revenue increased by 10.2% and used revenue increased by 7.2%. On a like for like basis, new retail revenue increased by £7.5 million and new Motability and fleet revenue increased by £74.7 million. The combination of an increase in used volumes of 5.2% and increased used gross margin from 11.3% to 11.9%, has uplifted overall used vehicle gross profit by 12.5%, on a like for like basis. Aftersales gross profit has decreased by 3.7% on a like for like basis which is largely a result of falls in new car warranty service work and bodyshop work. Aftersales margin has improved to 69.3% in the period on a like for like basis.

The following table summarises the new car market for the brands that Evans Halshaw represents for each of the years ended 31 December 2012 and 31 December 2011:

Evans Halshaw New Car Market ‘000	**Year Ended 31 December 2012**	**Year Ended 31 December 2011**	**YOY Change %**
Retail Vehicle Market	395.5	354.1	11.7%
Fleet Vehicle Market	592.8	603.7	(1.8%)
Total New Vehicle Market	**988.3**	**957.8**	**3.2%**

As detailed in the ‘Markets and Sector Performance’ section, the light van market has been in recovery, so excluding vans, our car retail performance is up 14.3% on a like for like basis versus a national retail increase of 11.7%.

QUICKS.CO.UK

The following table shows the results for Quicks.co.uk for each of the years ended 31 December 2012 and 31 December 2011:

Quicks By Sector	**2012 Revenue £m**	**2012 Gross profit £m**	**2012 Gross margin %**	2011* Revenue £m	2011* Gross profit £m	2011* Gross margin %
Aftersales	**3.9**	**0.0**	**0.5%**	1.8	(0.3)	(18.6%)
Used	**40.0**	**4.1**	**10.4%**	42.4	3.1	7.3%
New	**-**	**-**	**-**	-	-	-
Trade/Wholesale	**3.0**	**(0.4)**	**(14.3%)**	3.4	(0.3)	(8.6%)
Total	**46.9**	**3.7**	**8.0%**	47.6	2.5	5.2%

Quicks Underlying*	**2012 Existing**	**2012 Disposed**	**2012 Total**	2011* Existing	2011* Disposed	2011* Total
Gross Profit Per Unit £	**n/a**	**n/a**	**530**	n/a	n/a	418
Total Units ‘000	**7.0**	**-**	**7.0**	6.7	-	6.7
Operating Profit £m	**(3.8)**	**-**	**(3.8)**	(4.4)	-	(4.4)

* Quicks was included in the non-underlying results in 2011 but has been analysed above for comparison purposes.

In 2012 Quicks.co.uk results are shown within its own segment. In 2011 the results were shown within non-underlying results. The business generated an operating loss of £3.8 million which was a £0.6 million improvement on 2011. In the second half of 2012, Quicks.co.uk performed £1.6 million ahead of the prior year and is continuing on this upward trajectory. The operation currently has seven sites and sold over 7,000 used vehicles in 2012.

CALIFORNIA

California California consists of nine franchise points in Southern California which represent the Aston Martin, Jaguar and Land Rover brands.

The following table shows the underlying results for California for each of the years ended 31 December 2012 and 31 December 2011:

California By Sector	2012 Revenue £m	2012 Gross profit £m	2012 Gross margin %	2011 Revenue £m	2011 Gross profit £m	2011 Gross margin %
Aftersales	**23.1**	**12.5**	**54.0%**	23.2	12.4	53.4%
Used	**40.7**	**3.6**	**8.8%**	33.1	3.4	10.2%
New	**101.1**	**12.3**	**12.2%**	105.8	12.8	12.1%
Trade/Wholesale	**8.2**	**(0.1)**	**(0.3%)**	7.5	(0.1)	(0.9%)
Total	**173.1**	**28.3**	**16.4%**	169.6	28.5	16.8%

California Underlying	2012 Existing	2012 Disposed	2012 Total	2011 Existing	2011 Disposed	2011 Total
Gross Profit Per Unit £	**n/a**	**n/a**	**3,693**	n/a	n/a	4,158
Total Units '000	**4.3**	**-**	**4.3**	3.9	-	3.9
Operating Profit £m	**5.3**	**-**	**5.3**	5.7	-	5.7

Turnover increased by 2.1% over 2011 due to an increase in used vehicle revenue of 23.2% which was offset by falls in new vehicle revenue. The reduction in new vehicle revenue reflects a lower price mix of vehicles as new volumes were flat year on year.

SUPPORT BUSINESSES

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

The following table shows the underlying results for the Support businesses for each of the years ended 31 December 2012 and 31 December 2011:

	2012			2011		
Support	**Revenue £m**	**Operating Profit £m**	**Fleet Size**	Revenue £m	Operating Profit £m	Fleet Size
Pinewood	**9.9**	**9.1**	**n/a**	9.2	8.8	n/a
Contracts & Leasing	**18.2**	**6.9**	**9,700**	16.9	6.5	9,800
Quickco	**48.0**	**1.4**	**n/a**	40.2	1.9	n/a
Total	**76.1**	**17.4**	**9,700**	66.3	17.2	9,800

Commentary on the markets and performance of each of the Support businesses can be found in 'Our Markets' section.


Jaguar F-Type available from Stratstone.com

FINANCIAL REVIEW

The following table sets out the Group's financial results for the year ended 31 December 2012 and 31 December 2011:

Financial Summary £m	Year Ended 31 December 2012	Year Ended 31 December 2011	YOY Change %
Revenue	**3,635.1**	3,465.8	5%
Gross Profit	**481.3**	470.6	2%
Operating Profit	**67.9**	78.0	(13%)
Interest	**(30.1)**	(54.0)	(44%)
Profit Before Tax	**37.8**	24.0	58%
Tax	**(8.8)**	15.8	n/a
Profit After Tax	**29.0**	39.8	(27%)
Earnings Per Share	**1.9p**	3.7p	(49%)
Underlying* Revenue	**3,635.1**	3,418.2	6%
Underlying* Gross Profit	**481.3**	468.1	3%
Underlying* Operating Profit	**71.8**	74.4	(3%)
Underlying* Interest	**(35.4)**	(43.6)	(19%)
Underlying* Profit Before Tax	**36.4**	30.8	18%
Underlying* Tax	**(8.0)**	(5.7)	40%
Underlying* Profit After Tax	**28.4**	25.1	13%
Underlying* Earnings Per Share	**2.0p**	2.3p	(13%)

* Underlying results exclude items that have a non-trading attributes due to their size, nature or incidence

NON-UNDERLYING ITEMS

Non-underlying items in 2012 primarily relate to profits and losses on the disposal of businesses and property, property impairments, VAT settlements and pension costs. They are summarised as follows:

Non-underlying Items £m	Year Ended 31 December 2012	Year Ended 31 December 2011	YOY Change %
Start-up Business Costs	**-**	(4.8)	n/a
Property Impairments and Profit/(Loss) on Disposals	**(3.7)**	(0.6)	n/a
Refinancing and Pension Deficit Reduction Plan Costs	**-**	(18.5)	n/a
Pension Scheme Merger Costs	**(0.4)**	-	n/a
Pension Scheme Settlement Costs	**(0.6)**	-	n/a
Pension Net Finance Income	**3.4**	2.6	8%
VAT Settlements and Provision Releases	**2.7**	14.5	(81%)
Total	**1.4**	(6.8)	n/a

NON-UNDERLYING ITEMS *Continued*

Total net non-underlying income before tax was £1.4 million for 2012 (2011: cost £6.8 million). In the prior year, the Group had £4.4 million of start-up operating costs relating the Quicks.co.uk business. In 2012, the net operating loss of this business was £3.8 million and these results have been presented within the underlying results for the Group.

In the prior year, the Group incurred one-off costs of £18.5 million in association with the refinancing of the Group and pension deficit reduction plan. During the year the Group's six defined benefit pension schemes were merged into one new scheme. Costs incurred by this exercise were £0.4 million and a settlement cost of £0.6 million arose as a result. This year the Group received £2.7 million of VAT refunds and associated interest. In the prior year, non-underlying items included £9.4 million of VAT provision release and refunds and £5.1 million of interest on VAT refunds.

Underlying Finance Costs: Underlying financing costs were £35.4 million which compares to £43.6 million in the prior year as the Group has reduced the overall level of debt through operating cashflow and the Group's 2011 refinancing.

NET DEBT AND CASH FLOW

The Group has reduced net debt by £30.4 million in the year to £216.4 million from £246.8 million. At 31 December 2012 the Debt : Underlying EBITDA ratio was 2.0. The Debt : Underlying EBITDA is comprised as follows:

Debt : Underlying EBITDA **£m**	**Year Ended 31 December 2012**	Year Ended 31 December 2011	YOY Change %
Underlying Operating Profit	**71.8**	74.4	(3%)
Depreciation	**37.3**	35.8	+4%
Amortisation	**1.4**	1.4	0%
Underlying EBITDA	**110.5**	111.6	(1%)
Net Debt (see note 4.2)	**216.4**	246.8	(12%)
Debt : Underlying EBITDA Ratio	**1.96**	2.21	(11%)

The Group remains on track to achieve its Debt : Underlying EBITDA target of less than 1.5 times by the end of 2014.

CASH FLOW

The Group's balance sheet remains a key strategic priority and area of focus. The cash flows of the business for the twelve months ended 31 December 2012 and 31 December 2011 are summarised as follows:

Summary Net Debt Reduction £m	Year Ended 31 December 2012	Year Ended 31 December 2011*
Underlying Operating Profit	**71.8**	74.4
Depreciation and amortisation	**19.2**	19.1
Non-underlying Items	**0.4**	4.2
Working Capital Movement	**3.4**	24.3
Movement in Contract Hire Vehicles (see note 3.6)	**(17.9)**	(26.7)
Share Based Payments	**0.9**	0.8
Cash Generated From Operations	**77.8**	96.1
Net Underlying Interest Paid	**(36.9)**	(46.7)
Net Non-underlying Interest Received / (Paid) & Refinancing Costs	**1.9**	(8.3)
Tax Received / (Paid)	**0.4**	(1.5)
Replacement Capital Expenditure	**(17.1)**	(28.0)
Acquisitions	**(2.6)**	-
Disposals	**9.4**	4.2
Net Proceeds of Rights Issue	**-**	70.8
Other	**(2.5)**	(7.9)
Reduction in Net Debt	**30.4**	78.7

* 2011 restated due to change in presentation of contract hire cashflows as announced in the Interim Statement dated 7 August 2012.

Cash flow from operating activities was £77.8 million, which compares with £96.1 million generated in 2011. Replacement capital expenditure was £17.1 million in respect of property, plant and machinery and fixtures and fittings, which compares to £28.0 million in the prior year. Property and business disposals raised £9.4 million in 2012 (2011: £4.2 million). The Group acquired the Leeds BMW and MINI franchises in the period at a cost of £2.6 million. The operating cash flow includes an inflow of working capital of £3.4 million versus an inflow of £24.3 million in the prior year.

FINANCIAL REVIEW

FINANCING AND COVENANTS

The Group views its financial capital resources as primarily comprising share capital, loan notes, bank loans, vehicle stocking credit lines and operating cashflow. The Group is also responsible for funding the pension deficit and thus the total financial resources required by the Group to fund itself at 31 December comprise:

Net Debt and Refinancing **£m**	**Year Ended 31 December 2012**	Year Ended 31 December 2011	YOY Change %
Bank	**214.9**	245.2	(12%)
Finance Lease	**1.5**	1.6	(6%)
Total	**216.4**	246.8	(12%)
Stock Finance	**122.3**	129.1	(5%)
Manufacturers' Finance	**409.2**	399.1	3%
Pension Deficit	**29.8**	8.0	273%
Total Funding	**777.7**	783.0	(1%)

The Board's policy is to maintain a strong capital base to retain market confidence and to sustain the development of the business, whilst maximising the return to shareholders. The Group's key measure of return to shareholders is underlying earnings per share. The Group's strategy is to maintain facilities appropriate to the working capital requirements of the Group, whilst reducing debt towards a Debt : Underlying EBITDA ratio of less than 1.5.

The Group continues to operate comfortably within its existing facility and covenants.

DIVIDEND

The Board is delighted to announce a proposed final dividend of 0.1p in respect of 2012 which will be paid following the AGM in May 2013.

PROPERTY

Our property portfolio is an important aspect of our business which we seek to utilise in the most cost effective manner. We operate from both leasehold and freehold properties. In addition, through strategic investment choices and the decision to close some franchise points, we have a number of vacant property assets which are held for sale. At 31 December 2012 we held £165.7 million (2011 : £173.8 million) of property assets on the balance sheet as well as £23.6 million (2011 : £29.0 million) of properties held for sale.

In 2012 we disposed of eight franchise points which were operationally surplus to requirements. Business disposals resulted in proceeds of £1.9 million and a loss on disposal of £0.7 million.

The value of our investment in our joint venture property company continues to be fully impaired. The structure is non-recourse to the Group and therefore we have no obligations to the joint venture other than as tenants.

RISKS AND UNCERTAINTIES

The Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results. The principal risks identified were: delivery of business strategy, funding, liquidity and pensions, adverse economic and business conditions, used vehicle price movements, legislative changes in relation to vehicle taxation, regulatory compliance risk, vehicle manufacturer dependencies and marketing programmes, levels of new vehicle production, franchise agreements, reliance on certain management and key team members, failure of information systems, reliance on the use of significant estimates and competition and market challenges. The Board has recently reviewed the risk factors and confirms that they should remain valid for the rest of the year. The Board considers the main areas of risk and uncertainty that could impact profitability to be used vehicle prices and economic and business conditions.

Harley-Davidson® CVO™ Breakout™ available from Stratstone.com

OUR BOARD

Mike Davies (65)
Non-executive Chairman (N) (R)
Joined as a non-executive director in 2004 and was appointed non-executive chairman of Pendragon in October 2010. Mr Davies is non-executive chairman of The Manchester Airports Group PLC. Mr Davies chairs the company's Nomination Committee. Mr Davies retires from the Board following the 2013 AGM.

Malcolm Le May (55)*
Non-executive Director (A) (N) (R)
Joined Pendragon on 1 March 2006. His background is in investment banking with a particular interest in commercial property. Mr Le May is also a non-executive director of RSA Insurance Group Plc and a senior advisor to Ernst & Young LLP. Mr Le May is the senior non-executive director.

David Joyce (64)*
Non-executive Director (A) (N) (R)
Joined Pendragon on 1 March 2006. He is a civil engineer and the former managing director of Vinci PLC. Mr Joyce is the chair of the company's Remuneration Committee.

Mel Egglenton (56)
Non-executive Director (A) (N) (R)
Joined Pendragon on 1 December 2010. He is a chartered accountant and former Regional Chairman of KPMG Midlands and UK senior independent partner. Mr Egglenton is a non-executive director of, and advisor to a number of private companies. Mr Egglenton succeeds Mr Davies as non-executive Chairman following the 2013 AGM.

Chris Chambers (51)**
Non-executive Director (A) (N) (R)
Joined Pendragon on 28 January 2013. He is a banker with particular expertise in retail and property. He is a non-executive director of Swiss Prime Site AG and a member of the supervisory boards of Berenberg Bank (Schweiz) AG and G.E. Money Bank AG Switzerland.

Trevor Finn (55)
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 (52)
Chief Operating Officer
Joined the vehicle division of Williams PLC in 1982 and subsequently became a group general manager. He was appointed operations director of Pendragon in September 1995 and Chief Operating Officer in November 2001.

Tim Holden (48)*
Finance Director
Joined Pendragon in June 2008 as Group Financial Controller from KPMG LLP, where he was a senior manager advising on audit and transactional service matters. He is a chartered accountant. Mr Holden became Finance Director in December 2009.

Hilary Sykes (52)
Corporate Services Director
Hilary Sykes is a solicitor and prior to joining Pendragon, advised the Company as a corporate lawyer with Geldards LLP. She joined Pendragon in 1994 as company secretary and became a director in April 1999.

(A) member of the Audit Committee
(N) member of the Nomination Committee
(R) member of the Remuneration Committee
* retiring by rotation at the AGM, proposed for re-election
** retiring following initial appointment, proposed for election at the AGM.

Secretary
Hilary Sykes

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The Registry, 34 Beckenham Road,
Beckenham, Kent, BR3 4TU

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

Stockbrokers
Arden Partners PLC
Jefferies Hoare Govett

Auditors
KPMG Audit Plc

Solicitors
CMS Cameron McKenna LLP
Geldards LLP

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

More detailed information regarding the Group's performance and activities for the year ended 31 December 2012 and future developments is presented in the Operational Review on pages 24 to 29, and all the information detailed in those pages is incorporated by reference into this report and is deemed to form part of this report. The company has not disclosed certain specific non-financial key performance indicators, in the absence of relevant measures monitored consistently over the past three years.

CORPORATE GOVERNANCE

The corporate governance statement as required by the Disclosure and Transparency Rules 7.2.1 is set out on pages 50 to 59 and is incorporated by reference into this report.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the financial statements on pages 83 to 154. No interim dividend was paid during the year. The Directors are recommending a final dividend for the year ended 31 December 2012 of 0.1 pence per ordinary share. No dividends were paid in 2011.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board maintains a policy of continuous identification and review of risks which may cause our actual future Group results to differ materially from expected results. The table below sets out the principal risks faced by the Group, and examples of relevant key controls and mitigating factors. The risk factors set out below are not intended to represent an exhaustive list of all potential risks and uncertainties. The risk factors outlined should be considered in connection with the statement on risk management and systems of internal control in the Corporate Governance Report on pages 50 to 59. Health and safety is addressed within the Corporate Governance Report on page 59.

PRINCIPAL RISKS AND UNCERTAINTIES *Continued*

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

PRINCIPAL RISKS AND UNCERTAINTIES *Continued*

PRINCIPAL RISKS	POTENTIAL IMPACT / MATERIAL RISK	KEY CONTROLS & MITIGATING FACTORS
MACRO-ECONOMIC, LEGISLATIVE & POLITICAL		
Adverse economic and business conditions >	Changing UK macro-economic conditions such as unemployment levels, volatility in equity markets, consumer confidence, the level of discretionary spending, interest rates, inflation, fuel prices and the availability and cost of credit could adversely affect the Group's trading, financial position and prospects.	• Monitoring and tracking of internal performance measures to key macro-economic indicators allows anticipation of, and mitigation planning for, expected volatilities.
Used vehicle prices can decline significantly >	A significant decline in used vehicle prices can reduce used vehicle profit margins. As a significant proportion of our business comprises used vehicle sales, the impact of declines in used vehicle prices manifests itself not only through reduced profits on sales, but also through related write-downs in the value of used vehicle inventory.	• Regular monitoring of used vehicle prices and margins, inventory levels and buying levels in comparison with industry data allows the Group to react swiftly to changes in used vehicle prices. • A diverse market and brand strategy avoids over-reliance on used vehicles as a revenue stream. The impact of any price decline is mitigated as a result of revenue streams balanced between aftersales, new and used.
Legislative changes in relation to vehicle taxation >	The UK Government may take action in relation to VAT, the taxation of engine emissions, road usage or fuel for vehicles or introduce new green taxes.	• Ensuring that information about forthcoming changes in the vehicle taxation regime is promptly obtained so that potential mitigating strategies can be properly devised and considered.
Regulatory compliance risk >	The Group is subject to regulatory compliance risk which can arise from a failure to comply with the applicable laws, regulations or codes. Non-compliance can lead to fines, cessation of certain business activities or public reprimand.	• External regulatory uncertainties are carefully considered when developing strategy. Understanding of the likely direction of new regulatory policy is gained through close contact with relevant sector trade and representative bodies. • Robust procedures are in place to identify the impact of changes in regulation and its application and minimise the risk of non-compliance.

PRINCIPAL RISKS AND UNCERTAINTIES *Continued*

PRINCIPAL RISKS	POTENTIAL IMPACT / MATERIAL RISK	KEY CONTROLS & MITIGATING FACTORS
OUR MANUFACTURERS & SUPPLIERS, PERFORMANCE & KEY RELATIONSHIPS		
Vehicle manufacturer dependencies >	The Group depends on the vehicle manufacturers' financial condition, marketing, vehicle design, production and distribution capabilities, reputation, management and industrial relations. Failure by a manufacturer in the areas noted could, depending on the scale of our representation of its brands, lead to significant losses, especially in the case of the insolvency of a manufacturer.	• Diverse franchise representation avoids over-reliance on any single manufacturer.
Vehicle manufacturer marketing programmes >	Vehicle manufacturers provide a wide variety of marketing programmes that are intended to promote new vehicle sales. A withdrawal or reduction in these programmes would have an adverse impact on our business.	• Over-reliance on any single manufacturer's marketing programmes is mitigated by our diverse franchise representation. • The Group continues to develop its own standalone marketing initiatives and continues to add to its on-line marketing capabilities. This reduces or eliminates reliance on manufacturer e-marketing.
Profitability can be significantly affected by the level of new vehicle production >	A significant proportion of the Group's income is generated from vehicle manufacturers in the form of programmes designed to incentivise the sale of new vehicles produced. These are typically structured to include a fixed payment once a pre-determined target level of new cars from the manufacturer is registered by a dealership or dealership group. If those targets are set at unrealistic levels, that may require dealers to reduce prices and / or pre-register new vehicles in order to meet the sales targets. Decreasing new car prices also impacts negatively on prices and profit margins for used cars.	• The Group liaises closely with all its manufacturer partners to ensure that sales targets are set at levels more readily achievable in the prevailing economic climate.
Franchise agreements >	The Group operates franchised motor vehicle dealerships. Franchises are awarded to us by the vehicle manufacturers. Failure to continue to hold franchises could result in a significant reduction in the profits of the Group, as this would end its rights to source new vehicle stock directly to sell, to perform warranty repairs and to display manufacturer trade marks.	• Diverse franchise representation, avoiding over-reliance on any single manufacturer. Revenue streams from other markets (aftersales and used vehicles) preventing over-reliance on new vehicle sales.

PRINCIPAL RISKS AND UNCERTAINTIES *Continued*

PRINCIPAL RISKS	POTENTIAL IMPACT / MATERIAL RISK	KEY CONTROLS & MITIGATING FACTORS
OUR TEAM MEMBERS		
Reliance on certain members of management and key team members >	The Group is dependent on members of its senior management team and skilled personnel. The future financial well-being of the Group could depend in part on our ability to attract and retain highly skilled management and personnel. The loss of the service of a number of such individuals could have a material adverse effect on the business. Additionally, if we fail to recruit and retain skilled staff it may not be possible to continue to grow the Group's businesses.	• The Group continuously aims to provide secure and satisfying employment, recognising the contribution of each team member to the success of our business. • Recruitment processes, salaries and performance related pay elements are continuously reviewed and refined to ensure that the Group retains its ability to attract highly skilled management and personnel.
TECHNOLOGY, INFORMATION SYSTEMS & ESTIMATES		
Failure of information systems >	Our businesses are dependent on the efficient and uninterrupted operation of our information technology and computer systems, which are vulnerable to damage or interruption from power loss, telecommunications failure, sabotage, vandalism or similar misconduct.	• A robust business continuity planning process is followed, with alternative conduits for data and communications in the event of business interruption. • The Group's broad and geographically diverse estate allows deployment of key teams to alternative premises, and timely replication of interrupted services and functions.
Reliance on the use of significant estimates >	The Company relies on certain estimates and associated assumptions that could have a material effect on its financial statements. These include: discounted cash flows for impairment testing, valuations of properties held for sale, estimates of vacant property provisions, repurchase commitments, future warranty costs and warranty provisions and the value of vehicles the subject of future repurchase obligations.	• Where estimates and associated assumptions are required, the Group seeks to obtain the best available information to reach a conclusion, using external data sources where possible. • The accuracy of previous assumptions or estimates is reviewed to assess whether this impacts the current position.
COMPETITION		
Competition and market challenge >	We compete with other franchised vehicle dealerships, independent used vehicle sellers, private buyers and sellers, internet based dealers, independent service and repair shops and vehicle manufacturers who have entered the retail market. We compete for the sale of new and used vehicles, the performance of warranty repairs, non-warranty repairs, routine maintenance business and for the provision of spare parts. We also compete with a range of financial institutions that finance customers' vehicle purchases directly. Some of our competitors may have greater resources and lower overhead and sales costs. This could lead to our failure to be able to compete and result in a reduction in our profitability.	• The Group remains committed to providing a good value, personalised service to existing and potential customers, with the vision of being the number one choice in all our markets. To this end, we aim to capitalise on our extensive national footprint and the resultant cost efficiencies. • We regularly monitor our competitors' activities. • Our scale enables us to develop new market opportunities rapidly, using the extensive experience of our team members and our in-house information technology capabilities. • In service and parts sales, competitive pricing, efficient utilisation of customer databases, familiarity with manufacturer's brands and models and the quality of our customer service enables us to mitigate the impact of our competitors' activities.

DIRECTORS

The directors of the company are listed on page 37. Details of the terms of appointment and notice period of each of the current directors, together with their respective interests in the company's shares, appear in the Directors' Remuneration Report on pages 62 to 80. The UK Corporate Governance Code and the company's Articles of Association ("Articles") require directors to retire by rotation or, in the case of directors who have served more than nine years, annually. The notice of meeting describes the business of the Annual General Meeting and includes details of those directors proposed for election or re-election. Having been appointed as a non-executive director in January 2013, Mr C M Chambers offers himself for election. Following the performance evaluation of individual directors, the Chairman has confirmed that those non-executive directors who have served throughout the year and are standing for re-election at this year's AGM continue to perform effectively and demonstrate commitment to their roles. The directors in question are: Mr M J Le May and Mr D A L Joyce. Executive director Mr T P Holden will retire by rotation and, being eligible, stand for re-election. Each of the continuing non-executive directors, Mr M J Le May, Mr D A L Joyce, Mr M J Eggleton and Mr C M Chambers considers himself to have sufficient time to commit to the company's affairs, notwithstanding other business commitments, and not to have any unauthorised conflicting interests. As announced on 19 February 2013, Mr M T Davies retires as non-executive Chairman, and will be succeeded by Mr M J Eggleton, at the 2013 AGM.

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

Ordinary shares of 5 pence each	Nature of holding	31 December 2012 shares	31 December 2011 shares
T G Finn	Beneficial	34,317,691	34,317,691
M S Casha	Beneficial	7,135,869	7,135,869
H C Sykes	Beneficial	2,525,685	2,694,181
T P Holden	Beneficial	1,1 16,712	637,500
M T Davies	Beneficial	318,749	318,749
M J Eggleton	Beneficial	200,000	200,000
D A L Joyce	Beneficial	106,250	106,250
I D Coull*	Beneficial	100,000	100,000
M J Le May	Beneficial	40,375	40,375
C M Chambers**	n/a	n/a	n/a

*Mr I D Coull resigned from the Board on 28.01.13. ** Mr C M Chambers was appointed to the Board on 28.01.13.

These shares include the investment shares the executive directors have acquired for the purposes of the 2006 Long Term Incentive Plan ("LTIP") pursuant to awards made in 2008, 2011 and 2012, further details of which appear in the Directors' Remuneration Report. Since 31 December 2012, Mr T P Holden and Miss H C Sykes have each acquired 10,303 ordinary shares, pursuant to the all-employee sharesave scheme. Their respective total holdings of shares in the company at the date of this Report, all of which are beneficial are: Mr T P Holden 1,127,015 and Miss H C Sykes: 2,535,988.

Appointment and replacement of the Company's Directors

The rules for the appointment and replacement of directors are detailed in the Articles. Directors are appointed by ordinary resolution either at a general meeting of holders of ordinary shares or by the Board, either to fill a vacancy or as an addition to the existing Board. The appointment of non-executive directors is on the recommendation of the Nomination Committee; the procedure is detailed in the Corporate Governance Report on page 53.

Powers of the Company's Directors

Subject to the Articles, relevant legislation and any directions given by special resolution, the company and its Group is managed by its Board of directors. The directors have been authorised to allot and issue ordinary shares, to offer and allot ordinary shares in lieu of some or all of the dividends and to make market purchases of the company's ordinary shares. These powers are exercised under authority of resolutions of the company in general meeting. Further details of resolutions the company is seeking are set out in the explanatory notes to the notice of Annual General Meeting.

DIRECTORS *Continued*

Directors' Indemnities The Articles permit the Board to grant to its directors indemnities in relation to their duties as directors. Such indemnities are in respect of liabilities incurred by a director in connection with any negligence, default, breach of duty or breach of trust in relation to the company unless the director is ultimately held to be at fault. In line with market practice, each director has the benefit of a deed of indemnity which includes provisions in relation to duties as a director of the company or an associated company, qualifying third party indemnity provisions and protection against derivative actions.

Compensation for Loss of Office The current executive directors' (and one non-executive director's) terms of appointment contain legacy provisions for payments to be made to them if their employment with the company is terminated as a result of a take-over. These are being phased out, as more particularly described in the Directors' Remuneration Report on page 71.

SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS

At 1 February 2013 the directors had been advised of the following interests in the shares of the company:

Shareholder	Shares	%
Odey Asset Management	366,038,789	25.46
Schroder Investment Management	185,367,992	12.89
AXA Framlington	76,940,000	5.35
Standard Life Investments	73,931,997	5.14
Cazenove Capital Management	58,430,080	4.06
Legal & General Investment Management	50,470,171	3.51

SHARE CAPITAL

As at 31 December 2012, the issued share capital of the company comprised a single class of share: ordinary shares of 5 pence each. Details of the share capital of the company are set out in note 11 to the accounts on page 162. The company issued 17,025,672 new shares during the period under review, following the exercise of warrants over its shares. The rights and obligations attaching to the company's ordinary shares are set out in the Articles, and briefly summarised below. The Articles may be obtained from Companies House in the UK or upon application to the Company Secretary.

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

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

SHARE CAPITAL *Continued*

Voting Rights, Restrictions on Voting rights and Deadlines for Voting Rights Shareholders (other than any who, under the provisions of the Articles or the terms of the shares they hold, are not entitled to receive such notices from the company) have the right to receive notice of, and to attend and to vote at all general meetings of the company. A resolution put to the vote at any general meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is properly demanded.

Every member present in person at a general meeting has, upon a show of hands, one vote for every 5 pence nominal amount of share capital of which they are 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 their shares remains outstanding.

A member is entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at a general meeting. Further details regarding voting can be found in the notes to the notice of the Annual General Meeting. Details of the exercise of voting rights attached to the ordinary shares held by the Employee Benefit Trust are set out in the section entitled 'Shares held by the Pendragon Employee Benefit Trust' opposite. None of the ordinary shares, including those held by the Employee Benefit Trust, carries any special voting rights with regard to control of the company.

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

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

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

Repurchase of Shares Details of movements in the company's share capital are given in note 4.4 to the financial statements. The company has not repurchased any of its own shares during the year. The authority to purchase the company's own shares is exercised only if the directors expect it to result in an increase in earnings per share. For the purposes of any incentive awards, EPS will be adjusted to take account of the effect of any share buyback during the year.

Shares held by the Pendragon Employee Benefit Trust As at 31 December 2012, the company's Employee Benefit Trust, with Investec Trust (Jersey) Limited, held 20,775,214 shares, representing 1.45% of the total issued share capital at that date. These are used to satisfy options under the Pendragon 1999 Approved Executive Share Option Scheme, the Pendragon 1999 Unapproved Executive Share Option Scheme, the Pendragon 2009 Approved Executive Share Option Scheme, the Pendragon 2009 Unapproved Executive Share Option Scheme, the Pendragon 1998 Sharesave Scheme and the Pendragon 2008 Sharesave Scheme. The voting rights in relation to these shares are ordinarily exercisable by the trustee; however these rights are waived and the trustee does not vote the shares held.

During the year, no shares were transferred to beneficiaries of any of the company's share schemes by the trustees of the Employee Benefit Trust.

ARTICLES OF ASSOCIATION

The Articles were adopted by special resolution at the Annual General Meeting held on 25 April 2008, and amended by special resolutions passed on 26 June 2009 and 29 April 2010. The implementation in the UK of the EU Shareholder Rights Directive in August 2009 increased the minimum notice period for company general meetings to 21 days. The Board nevertheless believes that it should ensure that the minimum period for notice of meetings of the company can remain at 14 days, and accordingly a special resolution will be put to shareholders to approve 14 days as the minimum period of notice for all general meetings of the company other than AGMs. Full details of these resolutions are contained in the notes accompanying the notice of Annual General Meeting.

SIGNIFICANT AGREEMENTS

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

- Franchise Agreements – our dealerships operate under franchised new vehicle dealer agreements and authorised repairer agreements with various vehicle manufacturers and importers. Without a franchise agreement, it is not generally possible to obtain new vehicles from a manufacturer or display vehicle manufacturer trademarks. Some of the franchise agreements contain provisions entitling the vehicle manufacturers, in certain circumstances, to terminate in the event of a change of control.

- A Facilities Agreement dated 3 December 2005 (as subsequently amended and supplemented by amendment letters dated 3 February 2006, 14 February 2006 and 17 February 2006, an amendment and restatement agreement dated 8 March 2006, an override agreement dated 30 April 2009 and a supplemental override agreement dated 5 July 2011) between the company and its lenders under which the company's lenders agreed to make available to the company term and revolving facilities up to an aggregate sum of £238.8 million (as at 31 December 2012). In the event of a change of control, the lenders under this facility are able to cancel the facility and declare all outstanding amounts together with accrued interest, commission and other amounts immediately due and payable.

- A Loan Note Purchase Agreement dated 25 February 2004 (as subsequently amended and supplemented by an override agreement dated 30 April 2009 and a supplemental override agreement dated 5 July 2011) in relation to US $110.0 million 9.310% Guaranteed Senior Loan Notes due in 2014, US $67.0 million 9.310% Guaranteed Senior Loan Notes due in 2014 and GBP £17.0 million Guaranteed Senior Loan Notes due in 2014. In the event of a change of control, the company must offer to prepay all outstanding loan notes immediately. The total amounts outstanding in respect of these Notes totalled US $131.0 million and £12.9 million at 31 December 2012.

CORPORATE SOCIAL RESPONSIBILITY

The company's approach to corporate social responsibility is set out in the Corporate Governance Report on pages 58 to 59. No political donations were made (2011 : £nil) and the company does not intend the company or any member of the Group to make any such donations.

PAYMENTS TO SUPPLIERS

The Group's policy is to settle the terms of payment to its suppliers when agreeing the terms of the transaction and to abide by those terms, provided it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group has not adopted any specific code or standard on payment practice. The number of days' purchases outstanding for payment by the Group at 31 December 2012 was 66 days (2011: 55 days). The company had no trade creditors.

AUDITORS

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

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

By order of the Board
H C Sykes
Secretary
19 February 2013


AML 1


Aston Martin Vanquish available from Stratstone.com

CORPORATE GOVERNANCE REPORT

Pendragon PLC is committed to maintaining the highest standards of corporate governance. The Board is collectively responsible for the long term success of the company and for ensuring the company operates to governance which serves the best interests of the company. At all times in 2012 the company complied with the main principles and specific provisions in the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (the "Code").

STRUCTURE OF THE BOARD AND ITS KEY ACTIVITIES

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

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

Schedule of matters reserved for decision by the Board

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

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

The Board delegates certain of its duties to its Audit, Nomination and Remuneration committees, each of which operates within prescribed terms of reference. The responsibilities and composition of the Board's committees are set out on pages 53 to 55 of this Report and in the Directors' Remuneration Report.

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

STRUCTURE OF THE BOARD AND ITS KEY ACTIVITIES *Continued*

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

Performance Evaluation The Board annually reviews its composition and that of its committees, together with the respective contribution of each director. The process for evaluating the performance of the Chairman and non-executive directors, the Board committees and the Board as a whole is well established. It considers the adequacy and appropriateness of the skill-set of the Board, taking into account new developments in the company's business and strategy and the range of experience and expertise represented. The evaluation also considers the responsibilities of each director's role as set out in the Code, including capability and time commitment. For the year under review, the non-executive directors, led by the senior non-executive director and assisted by the Chief Executive, have reviewed the performance of the other executive directors, the non-executive directors have reviewed the performance of the Chief Executive, and the Board has reviewed the performance of the non-executive directors. The senior non-executive director has met with the other non-executive directors without the Chairman present, to conduct the annual appraisal of the Chairman's performance.

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

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

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

BOARD COMPOSITION AND INDEPENDENCE

As at 19 February 2013 the Board is made up of four executive directors and five non-executive directors, one of whom is Chairman. As announced on 19 February 2013, Mr M T Davies retires as non-executive Chairman, to be succeeded by Mr M J Egglenton, at the 2013 AGM. Independent non-executive director Mr C M Chambers joined the Board on 28 January 2013, replacing independent non-executive director Mr I D Coull who stepped down on the same day. There were no changes to the membership of the Board during the year under review (2012). There is a clear division of responsibility between the role of non-executive Chairman and Chief Executive. This is recorded in a written statement available at www.pendragonplc.com, and is reviewed and agreed annually by the Board.

BOARD COMPOSITION AND INDEPENDENCE *Continued*

Directors' conflicts of interest The Articles permit the Board to consider and, if it sees fit, to authorise directors' conflicts of interest. Conflicts of interest can include situations where a director has an interest that directly or indirectly conflicts, or may possibly conflict, with the interests of the company. The Board operates a formal system for directors to declare at all Board and committee meetings all conflicts of interest. Any so declared are considered for authorisation only by those directors who have no interest in the matter being considered. In deciding whether or not to authorise a conflict, the non-conflicted directors must act in the way they consider, in good faith, would be most likely to promote the success of the company. When giving authorisation, or subsequently, the Board may impose limits or conditions if deemed appropriate. Any conflicts considered by the Board, and any authorisations given, are recorded and subject to annual Board review and may be withdrawn or amended by decision of the non-conflicted directors at any time.

Balance and independence The non-executive directors complement the skills and experience of the executive directors, providing the requisite degree of independent judgement and scrutiny to the decision-making process at Board and committee level. All non-executive directors, including the Chairman, are determined by the Board to be independent. Mr M J Le May is the senior independent director. Mr M J Egglenton is a former partner in KPMG Audit Plc, the company's auditors. His association with that firm ceased before his appointment, and he has no continuing interests in it. The Board considered Mr M J Egglenton to be independent upon his appointment in 2010 and considers him to continue to be independent. The Board does not regard Mr M J Egglenton's former membership of KPMG as affecting his independence in any way and believes he continues to exercise independent judgement.

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

Re-election of directors In accordance with the Articles, directors appointed by the Board seek election at the first AGM following their appointment and all directors seek re-election by rotation at least once every three years. Accordingly, Mr C M Chambers, who joined the Board on 28 January 2013, will offer himself for election, and each of Mr D A L Joyce, Mr M J Le May and Mr T P Holden will offer himself for re-election at the 2013 AGM.

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

Director	Board
Non-Executive Directors	
M T Davies	11/11
D A L Joyce	9/11
M J Le May	10/11
I D Coull†	9/11
C M Chambers††	n/a
M J Egglenton	11/11
Executive Directors	
TG Finn	11/11
M S Casha	11/11
H C Sykes	11/11
T P Holden	11/11

*Attendance is displayed showing the number of meetings attended out of the total directors were eligible to attend (e.g. 10/11 means 10 out of 11 of the meetings held were attended).
†Mr Coull resigned from the Board on 28.01.13
††Mr Chambers was appointed to the Board on 28.01.13, and was therefore not eligible to attend meetings held during the year under review.

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

NOMINATION COMMITTEE

Full terms of reference of the Pendragon PLC Nomination Committee are available at:
www.pendragonplc.com

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

Members	Possible meetings to attend	Actual meetings attended
Mike Davies (Chairman)	2	2
Malcolm Le May	2	2
David Joyce	2	2
Ian Coull*	2	1
Mel Egglenton	2	2
Chris Chambers†	n/a	n/a

*resigned 28.01.2013.
†appointed 28.01.2013.

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

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

The principal responsibilities of the Committee are as follows:

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

The Committee met on 27 January 2012 where it covered the usual business of the annual meeting of the Committee for 2011, and also met in September 2012 for the purposes of the recruitment and selection processes for a new non-executive director.

REMUNERATION COMMITTEE

Full terms of reference of the Pendragon PLC Remuneration Committee are available at: www.pendragonplc.com

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

Members	Possible meetings to attend	Actual meetings attended
David Joyce (Chairman)	5	5
Mike Davies	5	5
Malcolm Le May	5	3
Ian Coull*	5	4
Mel Egglenton	5	5
Chris Chambers†	n/a	n/a

*resigned 28.01.2013.
†appointed 28.01.2013.

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

The principal responsibilities of the Committee are as follows:

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

The Committee met five times in 2012. Details of the work and approach adopted by the Committee are set out in the Directors' Remuneration Report on pages 62 to 80.

AUDIT COMMITTEE

Full terms of reference of the Pendragon PLC Audit Committee are available at:
www.pendragonplc.com

Our Audit Committee comprises four independent non-executive directors

Members	Possible meetings to attend	Actual meetings attended
Mel Egglenton (Chairman)	5	5
Malcolm Le May	5	4
David Joyce	5	3
Ian Coull*	5	3
Chris Chambers†	n/a	n/a

*resigned 28.01.2013.
†appointed 28.01.2013.

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

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

The Chairman of the company is regularly invited to attend the Committee's meetings.

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

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

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

The Committee's third meeting is primarily concerned with:

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

The Committee met five times in 2012. It has reviewed the effectiveness of the company's system of internal control and financial risk management, including consideration of reports from both the internal and external auditors and from the Risk Control Group, including the review of the Company's key risks register. The Audit Committee has reported the results of its work to the Board, and the Board has considered these reports when reviewing the effectiveness of the Group's system of internal control, which forms part of the Board's high level risk review performed during the year.

ANTI-BRIBERY

Following the coming into effect of the Bribery Act 2010 (in July 2011), anti-bribery controls and their effectiveness have become part of the routine business of the Audit Committee. It has to assess the suitability of the company's controls designed to combat bribery, in order to satisfy itself of the adequacy of the company's systems and procedures for the prevention of bribery and corruption. The company's Anti-Bribery value statement appears at www.pendragonplc.com.

WHISTLEBLOWING

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

RISK MANAGEMENT AND INTERNAL CONTROLS

Accountabilities The Board is responsible for risk management and internal control within the context of achieving the Group's objectives. The Board has used a risk-based approach in establishing a robust internal control system. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. Operational management is charged with responsibility for identifying and evaluating risks facing the Group's businesses on a day-to-day basis, considering all financial, transactional, technological, political, regulatory, reputational, socio-economic and physical risks. Operational management is supported in this role by the Risk Control Group, a committee made up of three executive directors and the Group's head of IT, and supplemented by the co-option of senior audit, HR, IT and Compliance personnel, as required from time to time. Representatives of the company's external auditors attend its meetings by invitation.

The Board has performed a high level risk assessment during the year. Major commercial, technological and financial risks are assessed, taking into account any adaptations made during the year to the company's business strategies. The Board considers that the Group's systems provide information which is adequate to permit the identification of key risks to the company's business and the assessment of those risks.

The design of mitigating controls and corresponding systems of check is a function of operational management in conjunction with the Risk Control Group. The Audit Committee monitors the work of the Risk Control Group, which oversees the effective implementation of new measures designed to mitigate or meet any specific commercial and other risks or threats.

The Risk Control Group met three times in 2012. Its work during the year has featured a thorough review of electronic point of sale controls, a revision of the Group's business continuity plan, and a review of the Group's Gifts and Hospitality Policy and procedures. It has not identified any weakness in controls which would have a material effect on the Group's business.

RISK MANAGEMENT AND INTERNAL CONTROLS *Continued*

Non-Audit Services provided by External Auditor The Committee has considered the company's policy on the use of the company's auditors to provide non-audit services. The company's objective is to ensure that all non-audit work is delivered on time, meets the company's aims and requirements, and demonstrates good quality and value for money. Accordingly, the company does not exclude its auditors from tendering for and undertaking non-audit services in areas considered by the Committee to be appropriate. However, the company does not award contracts for non-audit services to the company's auditors where there is any perceived actual or potential conflict of interest. Where appropriate, procurement of non-audit services is market tested through a formal tender process. The company's review of the potential provision to it of non-audit services by its external auditors is rigorous. It includes consideration of the estimated total annual fees which they would generate from the Group, were they to be appointed to provide the non-audit services in question, and the proportion of that total which would represent non-audit services provision.

Effectiveness and Independence of External Auditor During the year, the Audit Committee has carried out an evaluation of the company's external auditor KPMG Audit Plc, and reviewed the effectiveness of the external audit process and reported its findings to the Board. The review concluded that the external auditors were performing their functions effectively and the Committee recommended to the Board that they be re-appointed. The question of historical relationships between KPMG and two members of the Board, Mr T P Holden and Mr M J Egglenton, has been considered by the Board. Mr T P Holden began his career with KPMG before joining the company in 2008; Mr M J Egglenton is a former partner in KPMG's Midlands practice. Neither had any involvement in provision of services to the company or its Group whilst working at KPMG and neither was a Board member at the time of KPMG's first appointment as auditor to the company and its Group. Mr M J Egglenton has had no financial or other interest in KPMG since March 2010.

The proposal of the annual resolution for the appointment of the company's auditors is carefully considered by the Audit Committee and a recommendation made to the Board on the basis of exclusively objective criteria and the effectiveness of the current external auditor in the performance of their duties. The Board does not consider that any director's independence in considering this matter is impaired in any way and does not consider any Board member to have a potential or actual conflict of interest in relation to KPMG, in regard to its appointment, fees, the evaluation of its performance or any other matter.

The Board has considered the question of the appointment of the same audit firm for successive years and concluded that there are no issues warranting a competitive tender exercise in relation to the provision of audit services. This position would change if there were to arise any concerns as to the continuing independence or performance of its current auditors. The Board keeps the matter under annual review.

The Audit Committee has also reviewed the independence and objectivity of the external auditor where engaged in the provision of non-audit services. A full statement of the fees paid to KPMG Audit Plc and KPMG LLP for audit and non-audit services is provided in note 2.5 to the financial statements on page 102. The Committee has concluded that the external auditor firm's provision of non-audit services has not impaired audit independence.

INVESTOR RELATIONS

The Board as a whole takes responsibility for ensuring that the company is engaged in dialogue with shareholders which is constructive and fosters mutual understanding of the company's and shareholders' objectives.

In the main, shareholder communication is based around analyst/shareholder visits at key points in the financial reporting year, conducted by the Chief Executive and the Finance Director. The directors believe this to be the most practical and efficient way of communicating on matters such as strategic direction, financial performance, underlying market conditions and operational issues. The Chief Executive and Finance Director feed back any investor comments to the Board. The respective chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee are available to answer shareholders' questions at the company's AGM.

BUSINESS AT THE ANNUAL GENERAL MEETING

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

GOING CONCERN

The directors are satisfied that the Group is in a sound financial position, with adequate resources to continue in operation for the foreseeable future. In forming this view, the directors have reviewed budgets and other financial information. The financial statements of the Group have therefore been prepared on the basis that the Group is a going concern. For further information concerning the Group's liquidity and financing risk, see pages 125 to 136 of the financial statements, together with the directors' assessment of going concern.

CORPORATE SOCIAL RESPONSIBILITY

Involvement and Development The Group continues to recognise the importance of good communications and relations with its team members, since its ability to meet the needs of its customers in a profitable and competitive manner depends on the contribution of team members throughout the Group. Team members are encouraged to develop their contribution to the business wherever they work. Programmes focused on quality and customer service provide an opportunity for everyone to be involved in making improvements and in developing their own skills to that end. The company has been awarded Investors in People accreditation, first achieved in 1999, and renewed consistently since then.

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. Live-streaming information bulletins and podcasts, internal website messaging and face to face presentations as well as electronic newsletters and video play-books keep team members up-to-date with the company's strategy and performance. The Group's leaders channel these communications. Regular briefings for all team members, held at each location, provide a forum for sharing both company and local information. At all levels, communications aim particularly to recognise the achievements of individual team members and celebrate outstanding business performance, through peer recognition and widely publicised awards. During the year, the company has increased the breadth and variety of incentive programmes aligned to its business objectives and experienced increased team member engagement with these programmes.

Community As a multi-site, predominantly retail operator, the Group generates its community involvement through its local businesses. These contribute to their local areas in a variety of ways. At a national level, the Group is a sponsor and fundraiser for "Hope for Tomorrow" a national cancer charity which brings vital chemotherapy treatments to patients at home through mobile units: **www.hopefortomorrow.org.uk**. In addition, individual team members and the Group's local businesses organise charity events to support local schools, hospitals and a wide variety of charities as well as Comic Relief, the Royal British Legion and the BBC's Children in Need Appeal. The company supports and encourages these activities and welcomes the opportunities they present for team-building within the businesses and engagement with the communities they serve.

Environment Although not generally regarded as a high environmental impact sector, motor retailing and its associated after sales service activities carries with it a range of responsibilities relating to protection of the environment. The company's policy is to promote and operate processes and procedures which, so far as is reasonably practicable, avoid or minimise the contamination of water, air or the ground; and to manage responsibly the by-products of our activities such as noise, waste packaging and substances and vehicle movements. During the year, the company has continued to be registered with and has complied with its obligations under the Department of the Environment's carbon reduction commitment scheme. The company's statement of environment policy is available at www.pendragonplc.com.

CORPORATE SOCIAL RESPONSIBILITY *Continued*

Health and safety The company recognises its responsibility to all team members and others working in or visiting its facilities to provide, so far as is reasonably practicable, an environment which is safe and without risk to their health. The company's policy is to identify all potential hazards and assess the risks presented by its activities and to provide systems and procedures which allow team members at all levels to take responsible decisions in their day-to-day work in relation to their own and others' health and safety. The company promotes awareness of potential risks and hazards and implementation of corresponding preventative or remedial actions through its on-line health and safety systems, operations manuals and regular communication on topical issues. A clear hierarchy of responsibility is published to team members and reinforced through regular monitoring by a variety of means. The company's health and safety policy is available at www.pendragonplc.com.

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

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


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Letter from the Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2012 and to report on the outcome of the Remuneration Committee's review of remuneration policy. Our review follows the dissatisfaction with our remuneration policies expressed by shareholders at the 2012 Annual General Meeting. The review of executive remuneration has been thorough and conducted in the light of shareholder feedback on their expectations and with focus on recent governance developments.

During the late summer and early autumn of 2012 I have engaged directly with a range of shareholders and their representative advisory bodies in order to fully understand shareholder expectations as to the shape of the company's executive reward schemes and to maintain a constructive dialogue. My role, and that of the Remuneration Committee, has been to balance the views of our shareholder body with the need for the company to adopt competitive remuneration packages for our executive directors.

Amendments to 2012 Remuneration Policy

During the financial year, and in the light of feedback, we amended our 2012 remuneration policy from that disclosed in last year's Directors' Remuneration Report as follows:

1. Annual bonus opportunity for 2012 was reduced to a maximum of 100% of base salary (from 150% of base salary);

2. 2012 annual bonus targets were toughened, with payment of 100% of base salary only achievable for a materially higher degree of outperformance of the company's plan than was the case under the original targets; and

3. The vesting schedule for awards under the 2012 LTIP awards was amended so that only 30% of the award will now vest at threshold (reduced from 60%).

2012 Outturn

In relation to 2012 performance levels and the remuneration earned, as described in more detail in the financial review, the company has delivered year on year underlying profit growth of 18%, a reduction in net debt of 12%, and made significant progress on maximising returns within its three key sectors of aftersales, used and new. As a result, for the year under review, bonuses were paid to the executive directors at 54% of salary. In the current economic conditions, achieving this level of performance is good, and the Remuneration Committee is satisfied that awards made are appropriate. No long term or other incentives were eligible for vesting in respect of 2012.

2013 Remuneration Policy

The Committee has developed, in consultation with its major shareholders and advisors, a revised remuneration policy. Throughout the process, the Committee was advised by executive remuneration specialists New Bridge Street. The consultation was designed to construct the company's approach to remuneration policy for 2013 and beyond, to fulfil our twin objectives of retaining, motivating and incentivising the executive team and, crucially, aligning our approach with investor and market sentiment generally.

The key features of 2013 remuneration policy include:

1. **Annual cap on variable pay:** An overall annual cap will apply to executive director's remuneration from incentives. In relation to any given year, the amount of performance related remuneration (annual bonus earned and long term incentive awards granted) that may ultimately be received by executive directors may not exceed 25% of the company's incremental profit growth over the prior year. For these purposes, long-term incentive awards are recognised at their face value on grant.

2. **Deferral of awards into company shares:** Until an executive director has met the company's shareholding guidelines, they will be required to defer 25% of any annual bonus earned into the company's shares, and retain half the after tax number of vested performance shares received under long-term incentive plans.

3. **Reduction of LTIP opportunity:** Adjustments to the company's current LTIP scheme will reduce the overall maximum awards that may be granted in 2013 and any future year. These proposed changes are subject to shareholders' approval, to be sought at the 2013 AGM, and are as follows: (a) increasing the maximum performance share award that can be made, to an amount equivalent to 150% of the executive's base salary (pre-2013: 100%) whilst (b) removing the availability of matching share awards, previously available at a maximum value equivalent to 100% of the executive's base salary; and (c) adding a TSR underpin to the challenging EPS performance condition, further described in the Directors' Remuneration Report.

4. **Clawback:** In line with emerging best practice, there will be added to all incentive schemes for awards made in 2013 and future years, provisions that permit the company to reclaim variable components in exceptional circumstances of misstatement or misconduct. These will be reviewed in due course in the light of prevailing guidelines, due to be published by the Financial Reporting Council in 2014.

The Remuneration Committee will retain full discretion over awards granted and as to whether any variable incentive awarded will ultimately vest.

Remuneration reporting

Finally, we have made some changes to the structure and layout of the Directors' Remuneration Report, to improve transparency and demonstrate how remuneration policy is aligned with the company's strategy. In addition, in line with Government proposals on revising remuneration reporting, we have introduced a table summarising annual earnings of the executive directors, culminating in a single remuneration figure.

We anticipate that this evolution of disclosure will further your understanding of our executive policy and reward practices, and the Committee looks forward to receiving your support for the company's revised remuneration policy at the 2013 Annual General Meeting.

Yours sincerely

David Joyce
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

This report sets out policy for the company's directors' remuneration for the forthcoming year and, subject to ongoing review, for future years. It also describes how remuneration policy has been revised and implemented in 2012 and the relevant amounts paid in respect of 2012 performance. It has been prepared by the Remuneration Committee and approved by the Board. The report complies with the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations") and has been prepared in accordance with the UK Corporate Governance Code and the UKLA Listing Rules.

The Committee has considered proposed changes to the executive directors' remuneration reporting requirements made by the Department of Business, Innovation and Skills and, consistent with these proposals, has divided this report into two sections: a forward looking Policy Report and a backward-looking Implementation Report. The structure and content of the report remains compliant with the Regulations. The parts of the report which have been audited in accordance with the Regulations have been highlighted.

REMUNERATION POLICY REPORT

2013 Remuneration and Business Strategy

The company's strategy is to maximise the returns within the three key sectors of aftersales, used and new. The company's policy on executive directors' remuneration aims to:

- attract and retain directors of the calibre necessary to run the business effectively with levels of remuneration that are arrived at responsibly and also reflect their individual contribution and value to the company;
- recognise the benefits of simplicity in the design of remuneration structures;
- weight remuneration towards variable pay which is aligned with the achievement of business specific measures tied to the company's strategy;
- structure performance targets that are suitably challenging, the delivery of which is aligned with the interests of shareholders but that do not encourage undue financial or operational risk-taking; and
- encourage executives to build significant levels of share ownership through the retention of vested share awards, which provide the greatest weighting in the overall remuneration package.

The Remuneration Committee will retain full discretion over all elements of variable remuneration, both in terms of annual bonus awards and their vesting, and long term incentive awards and their vesting.

REMUNERATION POLICY REPORT *Continued*

The tables following show a summary of the individual elements of remuneration provided to the executive directors, including the split between fixed and variable pay, assuming target performance is achieved on variable elements:

POLICY: FIXED ELEMENTS				
Reward Element	**Purpose and Link to Strategy**	**Policy**	**Opportunity**	**Changes for 2013**
Base Salary	Provide competitive remuneration that will attract and retain executives, who are to take forward the company's strategy.	Base salary forms a lower proportion of overall reward opportunity than variable elements. Reviewed annually effective from 1 January. The Committee sets base salaries taking into account: • the performance and experience of the individual concerned; • any change in responsibilities; • rates of pay in comparably sized companies; • rates of pay within the company's group.	Salary increases are usually determined after taking due account of market conditions and any increases awarded to the wider workforce. Significant changes in role scope may require further adjustments to bring salary into line with new responsibilities. For recent joiners or promotions, whose pay was initially set below market rate, higher than usual increases may be awarded to bring them into line with market over a phased period as they develop in role.	CEO - £463,500 (no change) FD – £200,750 (10% increase) COO - £265,225 (3% increase) CSD - £128,750 (no change) The Finance Director's salary increase is necessary to transition to market comparable rates. This will be phased over the next two years, subject to performance. The increase in salary is the first since he was promoted to the Board in December 2009 and reflects his performance in the role and increased PLC experience. The Chief Operating Officer's salary increase is justified by his robust performance in post and is also commensurate with remuneration for comparable roles in the sector.
Pension	Provide cost-effective long-term retirement benefits that will form part of a remuneration package that will attract and retain executives who are able to take forward the company's strategy.	Post-2009 executives: participation in a defined contribution pension scheme. Pre-2009 executives: deferred membership of defined benefit pension scheme.	Post-2009 executives: contribution of 10% of base salary. Pre-2009 executives not already taking pension: 26% of salary cash supplement.	No changes
Benefits	Provide cost-effective, market competitive benefits.	Life assurance, private health cover, professional subscriptions, home telephone costs and (at executive's option) company cars.	Benefit levels are set to be competitive relative to companies of a comparable size.	No changes

POLICY: VARIABLE ELEMENTS					
Reward Element	**Purpose and Link to Strategy**	**Policy**	**Opportunity**	**Performance Measures**	**Changes for 2013**
Annual Bonus	Incentivise achievement of annual objectives which support the short term goals of the company, as reflected in the annual business plan.	Does not exceed 100% of base salary. No award is made for flat or negative profit growth.	Maximum available bonus is equivalent to 100% of base salary. Maximum bonus is available only for material outperformance of the company’s annual business plan.	Performance measures, referable to one financial year: Underlying Profit (50%) Year end net debt (50%)	No amount is payable in respect of an element of bonus unless the prior year’s result for that element is improved upon. Payments are subject to an overarching cap on variable remuneration: equal to 25% of profit growth. 25% of 2013 bonus earned will be subject to compulsory deferral into the company’s shares until such time as the company’s share ownership guidelines are met. Clawback provisions will permit the company to reclaim payments in exceptional circumstances of misstatement or misconduct.

REMUNERATION POLICY REPORT *Continued*

POLICY: VARIABLE ELEMENTS					
Reward Element	**Purpose and Link to Strategy**	**Policy**	**Opportunity**	**Performance Measures**	**Changes for 2013**
Long Term Incentive Plan	Incentivise executives to achieve EPS growth over a three year period. EPS growth is the measure most appropriate to the company's strategy.	Potential to receive fully paid shares in the company ("Performance Shares"). Awards are subject to performance conditions measured over three years.	Fully paid shares equivalent to 150% of the executive's base salary, subject to strict vesting conditions.	Awards vest at the end of a three year performance period, based on achievement of stretching EPS targets. The EPS targets operate subject to a positive TSR underpin.	Performance Share award to be the only available long term incentive for 2013 performance. Maximum opportunity reduced from 200% of salary to 150% of base salary[1]. EPS targets will no longer be structured on a cumulative basis; rather, they will relate to the level of EPS achieved in the final year of the performance period (i.e. for the 2013 awards, EPS achieved in the year ending 31 December 2015); Threshold performance attracts vesting of 25% of the award (2012 level: 30%); A positive TSR underpin will also be required to be satisfied over the three year performance period; and Clawback provisions will permit the company to reverse conditional share awards or claim proportionate repayments in exceptional circumstances of misconduct or misstatement.

[1]Proposed changes to LTIP structure for 2013 are subject to shareholder approval at the 2013 AGM.

REMUNERATION POLICY REPORT *Continued*

POLICY: NEW APPOINTMENTS AS EXECUTIVE DIRECTOR	
Reward Element	
Base Salary	Base salary is set by reference to relevant market data for the role, internal relativities and the individual's skills, experience and current salary. Where a salary is initially set below the market rate, a phased re-alignment may be made over time, subject to the executive's development in the role.
Annual Bonus	Eligible to participate in the annual bonus plan in operation, with any award being time pro-rated in relation to the proportion of service in the year.
LTIP	Eligible to participate in the LTIP on the same terms as other executive directors.
Buy Outs	In order to facilitate external recruitment of executive directors, it may be necessary for the Committee to consider buying out existing incentive awards which would be forfeit on the individual leaving their current employment. The Committee would seek, where possible, to provide a buy-out structure which was consistent with the forfeited awards in terms of quantum, vesting period and performance conditions.

TOTAL REMUNERATION OPPORTUNITY FOR 2013

Fixed Remuneration Following a review, the Committee confirmed that the base salary levels of the Chief Executive and corporate services director remained appropriate, and therefore no changes were made to these for 2013.

The salary level of the Finance Director, who has not received a salary increase since his promotion to the Board in December 2009, is to be increased owing to the fact that (i) the individual is considered to be performing robustly in his role; and (ii) his salary is significantly below comparable market levels. It is the Committee's intention to phase an increase to the base salary for the Finance Director over the next two years towards comparable market rates for his position in companies of similar size and complexity, subject to ongoing satisfactory levels of performance. His salary has been increased by 10% (to £200,750 from £182,500), effective from 1 January 2013.

As a result of the Chief Operating Officer's robust performance, and commensurate with remuneration for comparable roles in the sector, his salary has increased by 3% (to £265,225 from £257,500), effective from 1 January 2013.

With the exception of the Finance Director, or in the event of a material change in role or responsibility, it is the Committee's current intention to limit future executive director base salary increases to those of the wider workforce.

Variable Remuneration As detailed above, the variable elements of remuneration are linked to key financial and strategic measures used internally to monitor the performance of the business, and which we consider underpin the creation of value for our shareholders.

For 2013 and subsequent years, an overarching cap will apply to all variable remuneration of executive directors, such that the maximum proportion of the growth in profits achieved in any year that can be paid out is restricted to 25%. This limit applies to the annual bonus awarded in respect of a particular year and the long-term incentive awards granted in that same year. For these purposes, long-term incentive awards are recognised at their face value on grant. In practice, it is envisaged that up to a maximum 25% "profit pool" will be allocated first to any cash bonus awards and any remaining headroom within the cap will be used for long-term incentive awards. This approach may therefore result in the scaling back of long-term incentive awards previously granted, to remain within the 25% of incremental profit growth cap.

TOTAL REMUNERATION OPPORTUNITY FOR 2013 *Continued*

Annual Bonus Maximum annual bonus opportunity will remain limited to 100% of salary earned, split between the metrics of underlying (adjusted) profit (50%) and year end net debt (50%).

Adjusted profit and debt targets are set in the context of the company's overall business plan, with bonus targets set on a sliding scale linked to the achievement of these elements of the annual business plan. The Committee also established a further condition for payment of each element of annual bonus. On the profit metric, the company must have achieved not less than the adjusted profit of the previous financial year, and, on the debt metric, year end net debt must be less than that of the previous financial year.

The targets are summarised below (bonus is earned on a straight line basis between performance points):

Performance Achieved	Underlying Profit: % of Salary Payable	Debt: % of Salary Payable
Threshold (10% below target, must exceed prior year's result)	12.5%	12.5%
Target	31.25%	31.25%
Maximum (10% above target)	50%	50%

For any executive who has not met the company's share ownership guidelines (see page 70), 25% of the bonus earned will be subject to a mandatory deferral into the company's shares until such time as the company's share ownership guidelines are met. All current executive directors met the share ownership guideline as at the date of this report. Clawback provisions will also apply that permit the company to reclaim variable components in exceptional circumstances of misstatement or misconduct.

Long term Incentives The company has historically operated a flexible policy in relation to long term incentive award opportunity, maintaining the ability to make incentive awards under either conventional approved and unapproved market value share option schemes, or use alternative plans which conditionally award fully paid shares. Performance conditions have always operated over a three year performance cycle. Long term incentive plans currently available are described below:

- Pendragon Long Term Incentive Plan ("LTIP") – The LTIP has historically enabled the company to grant entitlements to fully paid shares in the company, determined at a level equivalent to 200% of base salary, made up of (i) Performance Shares at up to 100% of salary and (ii) Matching Shares, linked to deferral of annual bonus into the company's shares, at up to 100% of salary (using a 1:1 matching ratio). Both awards have historically been subject to the same EPS performance targets. As described earlier in this report and below, revisions are now proposed which reduce the opportunity under the LTIP;
- Pendragon 2009 Approved Executive Share Option Scheme - a HMRC approved discretionary scheme whereby options can be granted over shares with an initial market value of £30,000;
- Pendragon 2009 Unapproved Executive Share Option Scheme - designed to be used to grant awards over and above awards under a HMRC approved scheme; and
- Pendragon 2009 Executive Shared Ownership Plan ("ExSOP") – participants acquire, for a payment, a joint interest in fully paid Pendragon ordinary 5 pence shares the subject of the award.

Details of the performance conditions and outcome / current position for all outstanding long term incentive awards as at 31 December 2012 are shown on pages 77 to 79.

Use of, and revisions to LTIP Following review, the Committee now proposes a simplified structure. This limits future long-term incentive awards by amending the LTIP. These proposals are set out in detail in the notice of the 2013 AGM, and require shareholder approval, but are summarised below.

The annual Performance Share maximum award limit would increase to 150% of salary (from 100% of salary). As a quid pro-quo, no further Matching Share awards will be granted. In combination, these changes which will reduce the aggregate long-term incentive quantum that may be granted in any year from up to 200% of salary to up to 150% of salary.

Subject to receiving shareholder approval of changes to the LTIP Rules, 2013 LTIP awards will be at the maximum 150% of salary level, with vesting taking place subject to EPS targets shown in the table on page 70 (measured from the 2012 EPS result over a three year performance period).

TOTAL REMUNERATION OPPORTUNITY FOR 2013 *Continued*

The Committee considers that EPS remains the key internal measure of long-term financial performance. This measure is well understood by the executives and our investors and so is considered to provide a clear incentive to deliver the company's long term growth prospects. An underpin of creating absolute total shareholder value has also been adopted since this is also considered to further align the interests of executives with those of shareholders.

Annual EPS Growth (three year performance period)	Vesting Percentage:
Less than RPI + 4%	0%
RPI + 4%	25%
RPI + 10%	100%
Straight line vesting between performance points	

The Committee considers this vesting schedule to be appropriately demanding, after taking into account internal scenario analysis, current market expectations and the current trading environment.

The threshold vesting percentage, at 25%, has been reduced (from 30%, the threshold vesting percentage for the revised 2012 awards).

In addition, vesting will also only take place subject to (i) a positive absolute total shareholder return being delivered over the performance period; and (ii) the aggregate cap, which limits incentive pay originating in any year to 25% of incremental profits earned in that year.

In the event that shareholder approval is not gained for these changes, any LTIP awards already made in 2013, conditional on the obtaining of shareholders' approval, will immediately lapse.

From 2013, future long-term incentive awards will also be subject to clawback provisions that will permit the company to reclaim variable components in exceptional circumstances of misstatement or misconduct. It is the Committee's intention to review clawback provisions in due course once the Financial Reporting Council has published its updated guidelines in 2014.

Share Ownership Guidelines The company continues to recognise the importance of executive directors building significant holdings of the company's shares. The current share ownership guidelines were reviewed in autumn 2012. To encourage share ownership among executive directors joining the company, these require executive directors to aim, within three years of joining the Board, to have built a stake equal in value to 100% of their annual salary (200% in the case of the Chief Executive). Until such time as the guidelines are met, executive directors will be required to defer 25% of annual bonus into the company's shares and retain half the after tax number of vested performance shares received under long term incentive plans. All current executive directors met the share ownership guideline as at the date of this report.

Sharesave The company operates a HMRC approved sharesave scheme in which the executive directors may participate on the same terms as all other employees. The most recent sharesave offering was made in July 2009. Full details can be found in note 4.6 to the financial statements on page 139.

SERVICE CONTRACTS AND EXIT PAYMENTS

Executive directors are appointed under service contracts of indefinite duration (with a 12 month notice period), whereas non-executive directors each have a fixed term appointment renewable upon expiry at the company's discretion. Since 2010, appointments of new non-executive directors and renewals of existing appointments have been on three-year fixed terms. When considering the re-appointment of a non-executive director, the Board reviews their attendance at and participation in meetings and their overall performance, and also takes into account the balance of skills and experience of the Board as a whole.

Name	Commencement	Expiry/cessation	Unexpired term at date of Report (months)
M T Davies†	01.01.13	31.12.15	34
D A L Joyce	01.01.12	31.12.14	22
M J Le May	01.01.13	31.12.15	34
I D Coull*	01.12.10	28.01.01	n/a
M J Egglenton††	01.12.10	31.12.13	10
C M Chambers**	28.01.13	27.01.16	34

*Mr I D Coull resigned from the Board on 28 January 2013.

** Mr C M Chambers was appointed to the Board on 28 January 2013.

† Mr M T Davies' appointment was renewed in January 2013, but he intends to step down at the 2013 AGM.

†† Mr M J Egglenton is chairman-designate and his appointment will be renewed accordingly, to have effect from 22 May 2013, and expiring on 31 December 2015.

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

Previous years' Annual Reports disclosed that both the current executive directors' and certain non-executive directors' terms of appointment contain legacy provisions for payments to be made to them if their employment with the company is terminated as a result of a take-over. These are being phased out, as the opportunity arises, on renewals of appointments for non-executive directors. New executive director appointment terms will not include any entitlement to any predetermined compensation or severance payments in the event of cessation in office or employment as a consequence of a take over. Currently, as a result of phased renewals among the non-executive directors, only Mr Joyce's terms contain the take-over compensation provisions. Mr Joyce's terms will not contain these provisions upon any further renewal of his appointment. The proportions and calculations of these take-over entitlements are as follows:

Role	Proportion of annual salary / fees	Proportion of annual performance related pay
Executive Director	75%	75% of maximum available plus a pro rata amount, equivalent to the expired performance period
Non-Executive Director	100%	n/a

SERVICE CONTRACTS AND EXIT PAYMENTS *Continued*

With regard to the circumstances under which the current executive directors might leave service, other than the above, these are described below with a description of possible payments that may be anticipated:

NATURE OF BENEFIT	REASON FOR LEAVING		
	“Bad” leaver (e.g. resignation)	“Good” leaver (e.g. ill health, redundancy or retirement)	Departure on Agreed Terms
Salary in lieu of notice period	No salary in lieu of notice paid on resignations unless in the interests of the company to do so	Up to a maximum of 100% of salary. Normal practice would be for phased payment	Treatment will depend on the circumstances of the leaver event, subject to the discretion of the Remuneration Committee, and the terms of any termination agreement
Pension and benefits	Provided for period of notice period served. No benefits provided for periods after actual cessation of service unless in the interests of the company to do so	Up to one-year’s worth of pension and benefits. Possible payment of pension and insured benefits triggered by the leaver event (this would be governed by the terms of the benefits provided)	
Bonus	None	Yes (discretion to pay pro-rata based on company’s performance)	
Long-term incentive entitlements	Lapse	Discretion to allow up to full vesting, based on company’s performance, with normal practice being pro rata vesting, based on the proportion of the performance period served	
Other payments	None	Disbursements such as contribution to legal costs	

POLICY ON NON-EXECUTIVE DIRECTORS' REMUNERATION

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.

The current fee levels were established upon reviews in 2010 and 2011. The Chairman receives an all-encompassing fee of £150,000, established in 2010. Non-executive directors' fees are structured as follows:

Fee Type	Fee Level £	Last Change	Changes in 2012	Change in 2013
Basic fee	40,000	2011	None	None
Supplementary fees:				
1. Senior Independent Director	4,000	April 2011	None	None
2. Audit Committee Chairman	10,000	April 2011	None	None
3. Remuneration Committee Chairman	5,000	January 2011	None	None
4. Nomination Committee Chairman	Nil	n/a	None	None
Chairman fee	150,000	October 2010	None	None

How Employees' Pay is Taken into Account Pay and conditions elsewhere in the Group were considered when finalising the current remuneration policy for executive directors. The Committee is kept updated during the year on salary increases within the Group, and the level of annual bonus awards, as well as overseeing participation in long-term incentives for below Board level team members. As a result, the Committee is aware of how typical employee total remuneration compares to the potential total remuneration packages of executive directors.

No across-the-board pay increases have been awarded to the wider workforce in recent years, and this is also the case for executive directors' salaries.

How Shareholders' Views are Taken into Account The Board considers shareholder feedback received in relation to the AGM each year at a meeting immediately following the AGM and any action required is built into the Remuneration Committee's business for the ensuing period. This, and any additional feedback received from shareholders from time to time, is then considered by the Committee and as part of the company's annual review of remuneration policy.

As described earlier in this report, a number of changes to policy and practice are being made for 2012 and 2013 in the light of feedback received from shareholders. The input of our shareholders has been key in the formulation of the 2013 policy.

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

REMUNERATION IMPLEMENTATION REPORT

The Role of the Remuneration Committee The Committee reviews and approves the annual salaries, incentive arrangements (including setting the performance targets and payments/vesting events), service agreements and other employment conditions of the executive directors. The Committee has delegated responsibility for setting the remuneration of the Chairman. The full terms of reference of the Committee are published at www.pendragonplc.com

Membership and operation The Committee comprises the following non-executive directors:

Committee member	Member throughout 2012	Number of meetings attended (out of a possible 5)
D A L Joyce (Chairman)	Yes	5/5
M T Davies	Yes	5/5
M J Le May	Yes	3/5
M J Egglenton	Yes	5/5
I D Coull*	Yes	4/5
C M Chambers**	No	n/a

*I D Coull resigned from the Board on 28.0.1.13

** C M Chambers was appointed to the Board on 28.01.13, and was therefore not a member of the Remuneration Committee in 2012 eligible to attend meetings.

Key Committee Activities during 2012

- Determining annual bonus awards in respect of 2011 performance;
- Finalising the annual bonus plan terms for 2012;
- Determining 2012 long-term incentive award levels, the associated performance targets and granting the awards;
- Amending the terms of the 2012 remuneration policy following the 2012 AGM;
- Determining and agreeing with the Board the remuneration policy for 2013;
- Testing of performance targets for the company's 2010 ExSOP awards;
- Setting 2013 executive director salary levels;
- Considering the corporate governance environment and the proposed regulatory changes to voting and reporting on executive directors' remuneration; and
- Noting remuneration trends across the Group.

Advisers During 2012, the Chief Executive, Mr T G Finn provided advice to the Committee but not in respect of his own pay. In addition, external advice was provided from New Bridge Street (a trading name of Aon Corporation) who are appointed advisers to the Committee, and Pinsent Masons LLP, the company's share incentive scheme legal advisors. Pinsent Masons did not provide any other services to the Group. Aon Corporation is an independent adviser to the trustee of the Pendragon Group Pension Scheme. The secretary to the Committee is Richard Maloney, the Group Solicitor.

REMUNERATION IMPLEMENTATION REPORT

Total Remuneration for 2012

BASE SALARY + OTHER BENEFITS + ANNUAL BONUS + VALUE EARNED FROM LONG TERM VESTED INCENTIVE AWARDS = TOTAL REMUNERATION

PAY FOR PERFORMANCE

In addition to the statutory disclosure of total emoluments for the year, we have also provided information on total remuneration, which will become the norm for reporting in future years under the current BIS reporting proposals. The total remuneration for 2012 for each of the directors who served during 2012 is set out in the table below:

	Salary / fees £000	Supplementary fees £000	Benefits[1] £000	Pension[2] £000	Bonus[3] £000	LTIP[4] £000	Total emoluments 2012 (excluding pensions) £000	Total emoluments 2011 (excluding pensions) £000
Executive directors								
T G Finn	464	-	22	121	250	0	857	946
M S Casha	258	-	10	67	139	0	474	527
T P Holden	183	-	13	see note[2]	99	0	295	334
H C Sykes	129	-	7	33	70	0	239	265
Non-executive directors								
M T Davies	150	n/a	-	-	-	-	150	150
D A L Joyce	40	5	-	-	-	-	45	45
M J Le May	40	4	-	-	-	-	44	44
M J Egglenton	40	10	-	-	-	-	50	50
I D Coull*	40	n/a	-	-	-	-	40	40
Total	**1,344**	**19**	**52**	**221**	**558**	**0**	**2,194**	**2,401**

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

[2] Salary supplement in lieu of employer pension contribution, or in the case of Mr T P Holden, company contribution to defined contribution pension scheme of 10% of basic salary (£18,300). Mr T G Finn, Mr M S Casha and Miss H C Sykes ceased to be active members of the Pendragon defined benefit Pension Plan in 2006. Whereas Mr M S Casha and Miss H C Sykes remain as deferred members, entitled to a deferred pension calculated up to the date of their leaving the pension plan, Mr T G Finn elected to take early retirement benefits from 8 February 2008 and is therefore a pensioner member of that plan (which has now merged with five other Group pension schemes, to form the Pendragon Group Pension Scheme).

[3] Bonus Award for 2012 total equivalent to 54% of base salary – see page 76 for more detail.

[4] The performance conditions for the ExSOP, awarded in 2010 and the only outstanding LTIP award which had the potential to vest following completion of the performance period ended 31 December 2012, have not been achieved, and consequently these awards lapsed in their entirety. Nil value is attributable to them.

* Resigned from the Board on 28.01.2013.

PENSIONS

The Pendragon Group Pension Scheme ("Pension Plan") is established for the benefit of the Group's eligible employees. The Pension Plan operates through a trustee company which holds and administers its assets entirely separately from the Group's assets. There is no direct investment in Pendragon PLC. Mr T G Finn, Mr M S Casha and Miss H C Sykes ceased to be active members of the Pension Plan in 2006. Mr T P Holden participates in the defined contribution section of the Pension Plan, to which the Company makes a contribution of 10% (£18,300) of his basic salary, for his benefit. The non-executive directors are not eligible to participate in the Pension Plan.

£000	M S Casha	H C Sykes
Total annual accrued pension entitlement at 31.12.11 (p.a.)	151	49
Total annual accrued pension entitlement at 31.12.12 (p.a.)	159	51
Increase in accrued pension during the year excluding inflation (p.a.)	0	0
Increase in accrued pension during the year including inflation (p.a.)	8	2
Transfer value of increase excluding inflation	0	0
Transfer value of accrued benefit at 31.12.11	3,618	663
Transfer value of accrued benefit at 31.12.12	4,352	828
Increase in transfer value over the year	734	165

PERFORMANCE RELATED PAY FOR 2012

For 2012, the maximum available annual bonus opportunity was 100% of base salary, with this maximum payment only achievable for performance in excess of the company's strategic plan. Payouts are for achieving demanding performance, measured against underlying (adjusted) profit (50%) and year-end net debt (50%). This structure for bonus opportunity for 2012 reflects both the investor feedback received following the 2012 AGM, (with the Remuneration Committee reducing the original bonus quantum from 150% of salary to 100% salary) and the competitive market in which the company currently operates.

For the year ended 31 December 2012, the Committee determined the following performance outturn:

	Below Threshold	Between Threshold and Target	Between Target and Maximum	Above Maximum	% of bonus
Underlying profit		✓			30%
Net debt		✓			24%

For the year ended 31 December 2012, the Remuneration Committee determined that, since 30% of the underlying profit performance metric had been achieved and that 24% of the net debt target had been achieved, total annual performance related pay would be 54% of salary, based on the salary earned by each executive director during the year under review.

LONG TERM INCENTIVE AWARDS MADE IN 2012

In March 2012, the executive directors received awards under the Pendragon Long Term Incentive Plan ("LTIP"), first adopted in 2006. Executive directors were granted a Matching Share award of 75% of salary based on a deferral of an equivalent amount of bonus (on a pre-tax basis) and a Performance Share award of 100% of salary.

At the time of making the awards, the Remuneration Committee had concluded that the features of the LTIP provided the most appropriate incentive and alignment of executive award with shareholders' interests, given the element of deferral entailed and that, further, eligibility for a matching award is dependent on the participant investing his annual bonus in company shares. The company's policy on setting challenging performance targets remained, but in order to reflect shareholder views the level of vesting for threshold performance was reduced to 30% (previously 60%).

For the 2012 LTIP, a challenging sliding scale of EPS targets was adopted. The targets detailed in the table below applied to both Performance Shares and Matching Shares awarded under the LTIP.

LTIP 2012 Performance Conditions	
2014 Cumulative Underlying EPS*	Percentage Vesting
Below 5.08 pence	Nil
5.08 pence	30%
6.27 pence	100%

Straight line vesting between performance points
*Cumulative underlying EPS will be calculated by adding together the underlying EPS for each of the financial years ending 31 December 2012, 2013 and 2014. If the performance condition is not satisfied, none of the LTIP awards will vest.

The above targets constituted an amendment to the target originally set when the award was granted, in response to investor feedback. The original proportion of the award vesting at the threshold performance level was 60% but this was reduced, with the agreement of the executives, following the 2012 AGM.

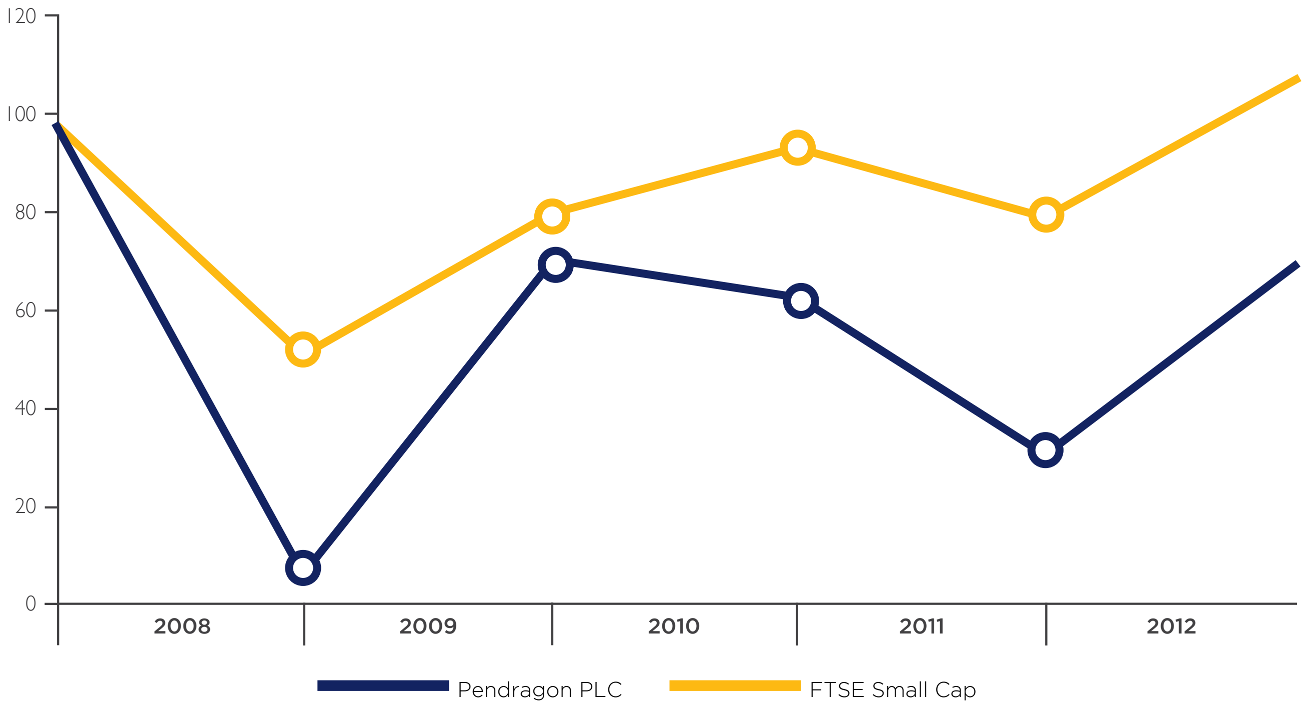
LONG TERM INCENTIVE AWARDS VESTING IN 2012

The performance period for the joint ownership (ExSOP) scheme adopted in 2009, under which awards were made to executive directors in 2010, expired on 31 December 2012. Vesting of a participant's interest in jointly-owned ExSOP shares required the achievement of a challenging EPS target of 6.55p for 30% vesting (threshold) and 7.39p for 100% vesting (maximum). The cumulative adjusted EPS for each of the financial years ending 31 December 2010, 2011 and 2012 was 6.0p. This EPS performance condition was not achieved and consequently, all ExSOP awards have lapsed.

The Remuneration Committee assesses the extent to which the performance conditions that apply to the performance related elements of the remuneration framework have been met, following sign-off of the company's audited Annual Report and Accounts. This ensures that incentive payments are made following independently audited results being known.

TOTAL SHAREHOLDER RETURN[1]

The graph below shows the total shareholder return ("TSR")[2] on the company's shares in comparison to the FTSE Small Cap Index (excluding investment companies)[3]. TSR has been calculated as the percentage change, during the relevant period, in the market price of the shares, assuming that any dividends paid are reinvested on the ex-dividend date. The relevant period is the five years ending 31 December 2012. The notes at the foot of the graph provide more detail of the TSR calculation.



1 This report is required, pursuant to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, Schedule 8, Quoted Companies: Directors' Remuneration Report to contain this graph as a visual interpretation of the share price performance against a comparator stock market index.

2 Total Shareholder Return ("TSR") is calculated over the five years ended on 31 December 2012 and reflects the theoretical growth in the value of a shareholding over that period, assuming dividends (if any) are reinvested in shares in the company. The price at which dividends are reinvested is assumed to be the amount equal to the closing price of the shares on the ex-dividend date plus the gross amount of annual dividend. The calculation ignores tax and reinvestment charges. For each company in the index the TSR statistics are normalised to a common start point, which gives the equivalent to investing the same amount of money in each company at that time. The percentage growth in TSR is measured over the chosen period. To obtain TSR growth of the relevant index over the chosen period, the weighted average of TSR for all the companies in the index is calculated. In this case, it is the FTSE Small Cap Index (excluding investment companies) as explained in Note 3. The weighting is by reference to the market capitalisation of each company in the index in proportion to the total market capitalisation of all the companies in the index at the end of the chosen measurement period.

3 The FTSE Small CAP index has been selected as it represents the equity market in which the company was a constituent member for the majority of the relevant five year period ending 31 December 2012 detailed above.

DIRECTORS' SHAREHOLDINGS

	Legally owned as at 31 December 2012[1]	Legally owned as at 31 December 2011[1]	Subject to deferral under the annual bonus plan		Subject to performance conditions under the relevant Long Term Incentive Plan		Vested but unexercised share options	Percentage of salary held in shares under shareholding guidelines[2]	Guidelines met as at 31 December 2012
			2011 LTIP Award	2012 LTIP Award	2011 LTIP Award	2012 LTIP Award			
Trevor Finn	34,317,691	34,317,691	No	No	5,999,993	6,008,331	0	1,294%	Yes
Martin Casha	7,135,869	7,135,869	No	No	3,333,329	3,337,960	0	484%	Yes
Tim Holden	1,116,712	637,500	No	No	2,362,453	2,365,739	0	107%	Yes
Hilary Sykes	2,525,685	2,694,181	No	No	1,666,663	1,668,984	0	343%	Yes
Mike Davies	318,749	318,749	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ian Coull[3]	100,000	100,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mel Egglenton	200,000	200,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a
David Joyce	106,250	106,250	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malcolm Le May	40,375	40,375	n/a	n/a	n/a	n/a	n/a	n/a	n/a

[1] Calculated as total of legally owned shares. Unvested LTIP awards which are subject to performance conditions are not counted.
[2] Percentage based on value of shares held on 31.12.2012 – share price 17.50p.
[3] Mr I D Coull resigned from the board on 28.01.13

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

(1)Scheme / Award Type	(2)Award interest at 01.01.12	(3)Shares lapsed during year	(4)Shares granted /acquired during year	(5)Shares interest at 31.12.12	(6)Exercise price (pence)	(7)Earliest date on which exercisable/ exercise period (if applicable)
T G Finn						
Sharesave Scheme[1]	10,303	10,303	-	-	17.61	01.08.12 – 31.01.13
ExSOP 2010[2]	4,764,918	4,764,918	-	-	n/a	16.03.13
LTIP Matching Shares 2012[3,5]	-	-	2,574,998	2,574,998	n/a	05.03.15
LTIP Performance Shares 2012[4,5]	-	-	3,433,333	3,433,333	n/a	05.03.15
LTIP Matching Shares 2011[3,5]	3,235,348	-	-	3,235,348	n/a	05.03.14
LTIP Performance Shares 2011[4,5]	2,764,644	-	-	2,764,644	n/a	05.03.14
M S Casha						
ExSOP 2010[2]	2,647,177	2,647,177	-	-	n/a	16.03.13
LTIP Matching Shares 2012[3,5]	-	-	1,430,553	1,430,553	n/a	05.03.15
LTIP Performance Shares 2012[4,5]	-	-	1,907,407	1,907,407	n/a	05.03.15
LTIP Matching Shares 2011[3,5]	1,797,415	-	-	1,797,415	n/a	05.03.14
LTIP Performance Shares 2011[4,5]	1,535,914	-	-	1,535,914	n/a	05.03.14
H C Sykes						
Sharesave Scheme[1]	10,303	-	-	-	17. 61	01.08.12 – 31.01.13
ExSOP 2010[2]	661,794	661,794	-	-	n/a	16.03.13
LTIP Matching Shares 2012[3,5]	-	-	715,281	715,281	n/a	05.03.15
LTIP Performance Shares 2012[4,5]	-	-	953,703	953,703	n/a	05.03.15
LTIP Matching Shares 2011[3,5]	898,706	-	-	898,706	n/a	05.03.14
LTIP Performance Shares 2011[4,5]	767,957	-	-	767,957	n/a	05.03.14
T P Holden						
Sharesave Scheme[1]	10,303	-	-	-	17.61	01.08.12 – 31.01.13
ExSOP 2010[2]	1,876,154	1,876,154	-	-	n/a	16.03.13
LTIP Matching Shares 2012[3,5]	-	-	1,013,888	1,013,888	n/a	05.03.15
LTIP Performance Shares 2012[4,5]	-	-	1,351,851	1,351,851	n/a	05.03.15
LTIP Matching Shares 2011[3,5]	1,273,893	-	-	1,273,893	n/a	05.03.14
LTIP Performance Shares 2011[4,5]	1,088,560	-	-	1,088,560	n/a	05.03.14

1 Sharesave options under the Pendragon 2008 Sharesave Scheme that have no performance conditions. Sharesave options were granted for nil consideration. Miss Sykes and Mr Holden exercised their remaining sharesave options on 11 January 2013.

2 ExSOP awards involve the acquisition of shares jointly owned by the participant and the company's Employee Trust on terms that, to the extent that the performance conditions are satisfied, the participant can benefit from any growth in the market value of the jointly owned shares in excess of a pre-determined hurdle. The performance conditions were not attained and the ExSOP shares lapsed see page 77. No awards have been made under this arrangement since 2010 and all outstanding awards have now lapsed.

3 LTIP Matching Shares award over shares with the same pre-tax value as monies used by an executive to purchase outright the shares from his or her annual bonus. To the extent that the performance conditions are satisfied, LTIP Performance Shares and (where held) LTIP Matching Shares vest on the third anniversary of the grant date. Performance conditions for the 2012 LTIP are described on page 77.

4 Performance Shares are awarded in an amount up to 100% of base salary.

5 Both LTIP Matching and Performance Shares are subject to cumulative adjusted EPS targets. For 2011 awards these are 4.77p (60% vesting) rising to full vesting for 5.89p. For 2012 awards the targets are as described on page 77 but in summary are 5.08p (30% vesting) rising to full vesting for 6.27p.

SHARE PRICE INFORMATION AND PERFORMANCE

Other than those detailed above, there are no share option or long term incentive schemes in which the directors are eligible to participate. The middle market price of Pendragon ordinary shares at 31 December 2012 was 17.50 pence and the range during the year was 7.32 pence to 18.50 pence.

Approval This report was approved by the Committee and signed on its behalf by:

David Joyce
Chairman of the Remuneration Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement in respect of the financial statements

We confirm that to the best of our knowledge:

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

Approved by order of the Board

Tim Holden
Finance Director
19 February 2013

We have audited the financial statements of Pendragon PLC for the year ended 31 December 2012 set out on pages 83 to 163. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 81, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 and;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 58, in relation to going concern;
- the part of the Corporate Governance Statement on pages 50 to 59 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Michael Steventon (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants, One Snowhill,
Snow Hill Queensway, Birmingham, B4 6GH
19 February 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	Underlying £m	Non-Underlying £m	**2012 £m**	Underlying £m	Non-Underlying £m	2011 £m
Revenue	2.1	3,635.1	-	**3,635.1**	3,418.2	47.6	3,465.8
Cost of sales		(3,153.8)	-	**(3,153.8)**	(2,950.1)	(45.1)	(2,995.2)
Gross profit		481.3	-	**481.3**	468.1	2.5	470.6
Operating expenses	2.2	(409.5)	(4.3)	**(413.8)**	(393.7)	0.7	(393.0)
Operating profit before other income		71.8	(4.3)	**67.5**	74.4	3.2	77.6
Other income - gains on the sale of businesses and property	2.6	-	0.4	**0.4**	-	0.4	0.4
Operating profit		71.8	(3.9)	**67.9**	74.4	3.6	78.0
Finance expense	4.3	(35.9)	(18.8)	**(54.7)**	(44.2)	(38.8)	(83.0)
Finance income	4.3	0.5	24.1	**24.6**	0.6	28.4	29.0
Net finance costs		(35.4)	5.3	**(30.1)**	(43.6)	(10.4)	(54.0)
Profit before taxation		36.4	1.4	**37.8**	30.8	(6.8)	24.0
Income tax (expense) / credit	2.7	(8.0)	(0.8)	**(8.8)**	(5.7)	21.5	15.8
Profit for the year		28.4	0.6	**29.0**	25.1	14.7	39.8
Profit for the year attributable to:							
Equity shareholders of the parent		28.4	(1.4)	27.0	25.1	14.7	39.8
Non-controlling interests (pension related)		-	2.0	2.0	-	-	-
		28.4	0.6	29.0	25.1	14.7	39.8
Earnings per share							
Basic earnings per share	2.8			**1.9p**			3.7p
Diluted earnings per share	2.8			**1.9p**			3.6p

Non GAAP measure:			
Underlying basic earnings per share	2.8	**2.0p**	2.3p
Underlying diluted earnings per share	2.8	**2.0p**	2.2p

The notes on pages 89 to 154 form part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	**2012 £m**	2011 £m
Profit for the year		**29.0**	39.8
Other comprehensive income:			
Foreign currency translation differences of foreign operations		**(0.1)**	0.2
Defined benefit plan actuarial gains and losses	5.1	**(29.6)**	(2.7)
Income tax relating to defined benefit plan actuarial gains and losses	2.7	**6.8**	0.7
Adjustment in respect of minimum funding requirement on defined benefit plans	5.1	**4.8**	16.5
Income tax relating to adjustment in respect of minimum funding requirement on defined benefit plans	2.7	**(1.1)**	(4.4)
Other comprehensive income for the year, net of tax		**(19.2)**	10.3
Total comprehensive income for the year		**9.8**	50.1
Total comprehensive income for the year attributable to:			
Equity shareholders of the parent		**7.8**	50.1
Non-controlling interests (pension related)		**2.0**	-
		9.8	50.1

The notes on pages 89 to 154 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	**Total £m**
Balance at 1 January 2012	71.0	56.8	2.5	12.6	(0.3)	90.3	34.3	**267.2**
Total comprehensive income for 2012								
Profit for the year	-	-	-	-	-	27.0	2.0	**29.0**
Other comprehensive income for the year, net of tax	-	-	-	-	(0.1)	(19.1)	-	**(19.2)**
Total comprehensive income for the year	-	-	-	-	(0.1)	7.9	2.0	**9.8**
Issue of ordinary shares (note 4.4)	0.8	-	-	-	-	(0.8)	-	**-**
Distribution from pension partnership to pension scheme	-	-	-	-	-	-	(2.5)	**(2.5)**
Share based payments	-	-	-	-	-	0.9	-	**0.9**
Balance at 31 December 2012	71.8	56.8	2.5	12.6	(0.4)	98.3	33.8	**275.4**

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	**Total £m**
Balance at 1 January 2011	33.4	56.8	2.5	12.6	(0.5)	6.4	-	**111.2**
Total comprehensive income for 2011								
Profit for the year	-	-	-	-	-	39.8	-	**39.8**
Other comprehensive income for the year, net of tax	-	-	-	-	0.2	10.1	-	**10.3**
Total comprehensive income for the year	-	-	-	-	0.2	49.9	-	**50.1**
Issue of ordinary shares (note 4.4)	37.6	-	-	-	-	-	-	**37.6**
Rights Issue (note 4.4)	-	-	-	33.2	-	-	-	**33.2**
Transfer to retained earnings (note 4.4)	-	-	-	(33.2)	-	33.2	-	**-**
Investment in pension partnership by pension schemes (note 5.1)	-	-	-	-	-	-	34.3	**34.3**
Share based payments	-	-	-	-	-	0.8	-	**0.8**
Balance at 31 December 2011	71.0	56.8	2.5	12.6	(0.3)	90.3	34.3	**267.2**

The notes on pages 89 to 154 form part of these financial statements

CONSOLIDATED BALANCE SHEET

At 31 December 2012

	Notes	2012 £m	Restated* 2011 £m
Non-current assets			
Property, plant and equipment	3.2	**290.3**	299.4
Goodwill	3.1	**368.2**	367.7
Other intangible assets	3.1	**4.4**	3.8
Derivative financial instruments	4.2	**14.2**	21.5
Deferred tax assets	2.7	**10.4**	13.7
Total non-current assets		**687.5**	706.1
Current assets			
Inventories	3.5	**590.0**	565.4
Trade and other receivables	3.7	**97.4**	101.3
Cash and cash equivalents	4.2	**58.0**	101.4
Non-current assets classified as held for sale	3.4	**23.6**	29.0
Total current assets		**769.0**	797.1
Total assets		**1,456.5**	1,503.2
Current liabilities			
Interest bearing loans and borrowings	4.2	**(60.4)**	(64.3)
Trade and other payables	3.8	**(739.8)**	(736.2)
Deferred income	3.10	**(23.0)**	(22.2)
Current tax payable		**(25.5)**	(25.0)
Provisions	3.9	**(2.4)**	(0.7)
Total current liabilities		**(851.1)**	(848.4)
Non-current liabilities			
Interest bearing loans and borrowings	4.2	**(228.2)**	(305.4)
Trade and other payables	3.8	**(23.7)**	(21.1)
Deferred income	3.10	**(44.8)**	(44.9)
Retirement benefit obligations	5.1	**(29.8)**	(8.0)
Provisions	3.9	**(3.5)**	(8.2)
Total non-current liabilities		**(330.0)**	(387.6)
Total liabilities		**(1,181.1)**	(1,236.0)
Net assets		**275.4**	267.2
Capital and reserves			
Called up share capital	4.4	**71.8**	71.0
Share premium account	4.4	**56.8**	56.8
Capital redemption reserve	4.4	**2.5**	2.5
Other reserves	4.4	**12.6**	12.6
Translation reserve	4.4	**(0.4)**	(0.3)
Retained earnings		**98.3**	90.3
Total equity attributable to equity shareholders of the Company		**241.6**	232.9
Non-controlling interests		**33.8**	34.3
Total equity		**275.4**	267.2

Approved by the Board of directors on 19 February 2013 and signed on its behalf by :

T G Finn
Chief Executive

T P Holden
Finance Director

* Restated to reflect the reclassifications as described in Section 1 below.
The notes on pages 89 to 154 form part of these financial statements.
Registered Company Number: 2304195

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2012

	Notes	2012 £m	Restated* 2011 £m
Cash flows from operating activities			
Profit for the year		**29.0**	39.8
Adjustment for taxation		**8.8**	(15.8)
Adjustment for net financing expense		**30.1**	54.0
		67.9	78.0
Depreciation and amortisation		**19.2**	19.1
Share based payments		**0.9**	0.8
Losses on settlements or curtailments in pension schemes		**0.6**	-
Profit on sale of businesses and property		**(0.4)**	(0.4)
Impairment of property, plant and equipment		**-**	0.1
Impairment of assets held for sale		**5.4**	0.9
Reversal of impairment of assets held for sale		**(1.3)**	-
Changes in inventories	3.5	**(11.6)**	(33.3)
Changes in trade and other receivables		**4.1**	8.2
Changes in trade and other payables		**14.1**	64.6
Changes in retirement benefit obligations		**(0.2)**	(10.8)
Changes in provisions		**(3.0)**	(4.4)
Movement in contract hire vehicle balances	3.6	**(17.9)**	(26.7)
Cash generated from operations		**77.8**	96.1
Taxation received / (paid)		**0.4**	(1.5)
Interest received		**2.4**	5.7
Interest paid		**(37.4)**	(47.7)
Net cash from operating activities		**43.2**	52.6
Cash flows from investing activities			
Purchase of business	6.1	**(2.6)**	-
Proceeds from sale of businesses	6.2	**1.9**	0.9
Purchase of property, plant, equipment and intangible assets	3.1, 3.2	**(68.4)**	(72.1)
Proceeds from sale of property, plant and equipment	3.1, 3.2	**58.8**	47.4
Net cash used in investing activities		**(10.3)**	(23.8)
Cash flows from financing activities			
Proceeds on issue of shares (net of costs paid)		**-**	70.8
Payment of capital element of finance lease rentals		**(0.1)**	(0.9)
Repayment of bank loans		**(79.2)**	(77.5)
Proceeds from issue of loans		**6.6**	2.1
Payment of transaction costs related to loans and borrowings		**-**	(13.0)
Distribution from pension partnership to pension scheme		**(2.5)**	(0.2)
Net cash outflow from financing activities		**(75.2)**	(18.7)
Net (decrease) / increase in cash and cash equivalents		**(42.3)**	10.1
Cash and cash equivalents at 1 January		**101.4**	91.2
Effects of exchange rate changes on cash held		**(1.1)**	0.1
Cash and cash equivalents at 31 December	4.2	**58.0**	101.4

*Restated to reflect the reclassifications as described in Section 1.

The notes on pages 89 to 154 form part of these financial statements

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2012 £m	2011 £m
Net (decrease) / increase in cash and cash equivalents	**(42.3)**	10.1
Payment of capital element of finance lease rentals	**0.1**	0.9
Repayment of bank loans	**79.2**	77.5
Proceeds from issue of loans	**(6.6)**	(2.1)
Non-cash movements	**-**	(7.7)
Decrease in net debt in the year	**30.4**	78.7
Opening net debt	**(246.8)**	(325.5)
Closing net debt	**(216.4)**	(246.8)

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

The notes on pages 89 to 154 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

SECTION 1 - BASIS OF PREPARATION

Presented below are those accounting policies that relate to the financial statements as a whole and includes details of new accounting standards that are or will be effective for 2012 or later years. To facilitate the understanding of each note to the financial statments those accounting policies that are relevant to a particular category are presented within the relevant notes.

Pendragon PLC is a company domiciled in the United Kingdom. The consolidated financial statements of the Group for the year ended 31 December 2012 comprise the Company and its subsidiaries and the Group's interest in jointly controlled entities.

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

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 155 to 163.

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m. They have been prepared under the historical cost convention and where other bases are applied these are identified in the relevant accounting policy in the notes below.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Markets and Sector Performance and Operational Review sections on pages 10 to 12 and pages 24 to 29. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review section on pages 32 to 35. In addition, note 4.2 to the financial statements includes the Groups'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 risk and liquidity risk.

Although there are net current liabilities at 31 December 2012, there are undrawn available facilities and as highlighted in note 4.2 to the financial statements, the Group meets its day to day working capital requirements through bank, manufacturer and third party vehicle financing facilities. The bank facilities are due for renewal on 30 June 2014 and the Group has held discussions with its principal lenders about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statement.

SECTION 1 - BASIS OF PREPARATION

Accounting estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

• note 2.1 - revenue recognition
• note 3.5 - inclusion of consignment inventories

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

• note 2.7 - utilisation of tax losses and recognition of deferred tax assets
• note 3.1 - key assumptions used in discounted cash flows for impairment testing
• note 3.4 - valuation of properties held for resale
• note 3.8 - assessment of repurchase commitments
• note 3.9 - estimation of vacant property provisions
• notes 3.9 & 6.4 - VAT provision
• note 3.10 - assessment of expected future warranty income
• note 5.1 - measurement of defined benefit obligations (including valuation of the Central Asset Reserve)

Basis of consolidation

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

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

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

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

SECTION 1 - BASIS OF PREPARATION

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

Foreign currencies

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

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

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

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks and financial institutions, bank and cash balances, and liquid investments, net of bank overdrafts. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. In the balance sheet, bank overdrafts are included in current borrowings.

Impairment

The carrying amounts of the Group's assets, other than inventories (see note 3.5) and deferred tax assets (see note 2.7), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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.

SECTION 1 - BASIS OF PREPARATION

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

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

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

An impairment loss in respect of goodwill is not reversed.

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

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

The impact of the current year impairment review can be seen in note 3.1.

Adoption of new and revised standards and new standards and interpretations not yet adopted

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

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

• Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets: The amendments introduce an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 Investment Property. The exception also applies to investment properties acquired in a business combination accounted for in accordance with IFRS 3 Business Combinations provided the acquirer subsequently measures these assets applying the fair value model.

The adoption of the above standards has had no material impact on the financial statements.

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

• Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (applicable for our December 2013 financial statements): The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. They also preserve the existing option to present the profit or loss and other comprehensive income in two statements.

• Amendments to IAS 19 Employee Benefits (applicable for our December 2013 financial statements): The amendments require immediate recognition of actuarial gains and losses in other comprehensive income and eliminate the corridor method. The principal amendment that will affect most entities with a defined benefit plan is the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation.

SECTION 1 - BASIS OF PREPARATION

• Amendments to IFRS 7 Disclosures Offsetting Financial Assets and Financial Liabilities (applicable for our December 2013 financial statements): These amendments require specific disclosure for financial assets and financial liabilities within the scope of the common disclosures.

• IFRS 10 Consolidated financial statements (applicable for our December 2014 financial statements): This standard provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC-12.

• IFRS 11 Joint Arrangements (applicable for our December 2014 financial statements): This standard carves out from IAS 31, those cases in which there is a separate vehicle but that separation is overcome by form, contract or other facts and circumstances and removes the choice of equity or proportionate accounting for jointly controlled entities (as was under IAS 31).

• IFRS 12 Disclosure of Interests in Other Entities (applicable for our December 2014 financial statements): Contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.

• IFRS 13 Fair Value Measurement (applicable for our December 2013 financial statements): A new standard to replace existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework for measuring fair values and disclosures about fair value measurements. Standard applies to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price.

• IAS 27 Separate Financial Statements 2011 (applicable for our December 2014 financial statements): IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications.

• IAS 28 Investments in Associates and Joint Ventures 2011 (applicable for our December 2014 financial statements): Amendments relating to held for sale interests and changes of classification.

• Amendments to IAS 32 and IFRS 7 for Offsetting Financial Assets and Financial Liabilities (likely to be applied at the same time as IFRS 10): Amendments to clarify offsetting criteria and specific disclosures.

The above standards are not expected to have a significant impact on the financial statements of the Group with the possible exception of the amendments to IAS 19 which has been explained in note 5.1.

Restatement

As announced in our interim statement dated 7 August 2012, the directors had been in discussion with the Financial Reporting Review Panel regarding the compliance of the Group's cash flow disclosures in respect of contract hire vehicles with International Financial Reporting Standards. As a result of those discussions, in these financial statements the directors have amended the presentation of the contract hire cash flows and have restated the comparative cash flow information for the year ended 31 December 2011 so that all cash flows relating to the Group's contract hire operations are classified as operating. The restatement relates to the presentation of cash generated from operations and cash flows from investing activities relating to the Group's contract hire activities, as detailed in the table below.

There is no effect on the opening and closing cash position, comprehensive income or net assets as previously reported. Additional information on reconciling items relating to contract hire vehicles is also provided in support of 'Net cash from operating activities' in notes 3.5 and 3.6.

SECTION 1 - BASIS OF PREPARATION

The table below reflects the adjustments made to the comparative amounts for the year ended 31 December 2011.

Consolidated Cash Flow Statement	£m
Contract hire balances	
Decrease in depreciation charge	18.1
Decrease in movement in inventories	(24.6)
Decrease in movement in trade and other payables	12.6
Decrease in interest paid	(1.5)
Increase in movement of contract hire balances	26.7
Decrease in net cash from operations	31.3
Decrease in purchase of property, plant and equipment	(55.9)
Decrease of proceeds from sale of property, plant and equipment	24.6
Decrease in cash used in investing activities	(31.3)
Net cash flow movement	-

In addition, the directors have reconsidered the classification of deferred income relating to contract hire vehicles and certain warranty and other products. As a result, £42.4m reported within trade and other payables and £5.8m reported within provisions at 31 December 2011 is now included within deferred income. There is no effect on profit for the period or on net assets previously reported.

In respect of the contract hire vehicles, the property, plant and equipment note (note 3.2) has been expanded to disclose contract hire vehicles as a separate class of asset and to disclose amounts transferred to inventory at the end of the contract hire period.

The table below reflects the adjustments made to the comparative amounts as at 31 December 2011.

Consolidated Balance Sheet	As at 31 December 2011 £m
a) Warranty	
Increase in deferred income - current	4.1
Increase in deferred income - non-current	1.7
Decrease in provisions - current	(4.1)
Decrease in provisions - non-current	(1.7)
b) Contract hire	
Increase in deferred income - current	17.9
Increase in deferred income - non-current	24.5
Decrease in trade and other payables	(42.4)
	-

This has no consequence on the Consolidated Income Statement and consequently no impact on earnings per share measurements.

SECTION 2 - RESULTS AND TRADING

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

2.1 Revenue

Accounting policy

Revenue from the sale of goods is recognised in the income statement, net of discounts, when the significant risks and rewards of ownership have been transferred to the buyer. In general this occurs when vehicles or parts have been supplied or when service has been completed. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to time expended on services that are charged on a 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 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, held within trade and other payables and a residual amount of deferred revenue held within deferred income . A finance charge is accrued against the present value of the repurchase commitment and recorded as a finance expense in the income statement. The remaining deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight line basis over the related lease term. No additional disclosures are made under IAS 17 as there are no future rentals receivable. These vehicles are held within 'property, plant and equipment' at their cost to the Group and are depreciated to their residual values over the terms of the leases. These assets are transferred into inventory at their carrying amount when they cease to be rented and they become available for sale as part of the Group's ordinary course of business. Revenue also comprises commissions receivable for arranging vehicle finance.

The income received in respect of warranty policies sold and administered by the Group is recognised over the period of the policy on a straight line basis. The unrecognised income is held within deferred income (see note 3.10).

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

2.2 Net operating expenses

	2012 £m	2011 £m
Net operating expenses:		
Distribution costs	**(232.6)**	(235.1)
Administrative expenses	**(184.3)**	(161.0)
Rents received	**3.1**	3.1
	(413.8)	(393.0)

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments

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

Stratstone This segment comprises the Group's prestige car, truck and commercial vans brand encompassing the sale of new and used motor cars, motorbikes, trucks and vans, together with associated aftersales activities of service, body repair and parts sales.

Evans Halshaw This segment comprises the Group's volume car brand encompassing the sale of new and used motor cars, together with associated aftersales activities of service, body repair and parts sales. This segment also includes the Quicks used and aftersales start-up business results within the non-underlying activities in 2011.

Quicks This segment comprises the Group's used car operation encompassing the sale of used motor cars, together with associated aftersales activities of service and accessory sales. The Quicks business was previously shown as non-underlying as part of Evans Halshaw in 2011 as this was a start-up business.

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

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

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

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

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

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

The tables of financial performance presented in the Operational Review on pages 24 to 29 are based upon these segmental reports with the exception that the result of the Central segment is allocated across the other operational segments. A reconciliation of this allocation is presented within the tables below.

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

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Change in reporting structure

The Group has revised its reporting segments. The segmental structure now includes the Quicks used car business as a separate segment and the Chatfields truck business has now been combined with Stratstone. These changes fully reflect the way the business is managed and follows the internal reporting structure as presented to the CODM. The Quicks segment during 2011 was presented as a non-underlying item as this business was still in its start-up phase. In the financial statements for the year ended 31 December 2011 the Stratstone and Chatfields segments were presented individually. The impact of the combination for the current and prior year is presented below:

	Stratstone £m	Chatfields £m	**2012 Combined £m**	Stratstone £m	Chatfields £m	Restated **2011 Combined £m**
Revenue from external customers	1,344.6	94.3	**1,438.9**	1,259.3	74.3	**1,333.6**
Operating profit	28.3	1.7	**30.0**	30.4	1.5	**31.9**
Finance expense	(3.3)	(0.2)	**(3.5)**	(3.2)	(0.1)	**(3.3)**
Segmental profit before tax	25.0	1.5	**26.5**	27.2	1.4	**28.6**
Reconciliation to tables in Operational Review						
Operating profit as above	28.3	1.7	**30.0**	30.4	1.5	**31.9**
Allocation of central overheads	(3.7)	(0.4)	**(4.1)**	(2.6)	(0.4)	**(3.0)**
Result as presented in Operational Review tables	24.6	1.3	**25.9**	27.8	1.1	**28.9**
Other items included in the income statement are as follows:						
Depreciation	(5.1)	(0.4)	**(5.5)**	(3.5)	(0.4)	**(3.9)**
Amortisation	(0.7)	-	**(0.7)**	(0.7)	-	**(0.7)**
Share based payments	(0.5)	-	**(0.5)**	(0.4)	-	**(0.4)**

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2012

	Stratstone £m	Evans Halshaw £m	Quicks £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	**Total £m**
Aftersales revenue	138.6	142.2	3.9	23.1	-	-	-	-	**307.8**
Used vehicle revenue	585.6	733.4	40.0	40.7	-	-	-	-	**1,399.7**
New vehicle revenue	665.0	888.6	-	101.1	-	-	-	-	**1,654.7**
Trade / wholesale revenue	49.7	135.9	3.0	8.2	-	-	-	-	**196.8**
Support businesses revenue	-	-	-	-	33.3	66.9	23.0	-	**123.2**
Total gross segment revenue	1,438.9	1,900.1	46.9	173.1	33.3	66.9	23.0	-	**3,682.2**
Inter-segment revenue	-	-	-	-	(15.1)	(18.9)	(13.1)	-	**(47.1)**
Revenue from external customers	1,438.9	1,900.1	46.9	173.1	18.2	48.0	9.9	-	**3,635.1**
Operating profit before other income and non-underlying items	30.0	31.9	(3.8)	5.3	7.2	1.7	9.4	(9.9)	**71.8**
Other income and non-underlying items	-	-	-	-	-	-	-	(3.9)	**(3.9)**
Operating profit	30.0	31.9	(3.8)	5.3	7.2	1.7	9.4	(13.8)	**67.9**
Finance expense	(3.5)	(4.3)	(0.4)	(0.7)	-	-	-	(45.8)	**(54.7)**
Finance income	-	-	-	-	0.2	0.1	0.4	23.9	**24.6**
Segmental profit before tax	26.5	27.6	(4.2)	4.6	7.4	1.8	9.8	(35.7)	**37.8**
Reconciliation to tables in Operational Review									
Operating profit before other income and non-underlying items	30.0	31.9	(3.8)	5.3	7.2	1.7	9.4	(9.9)	**71.8**
Allocation of central overheads	(4.1)	(4.9)	-	-	(0.3)	(0.3)	(0.3)	9.9	**-**
Result as presented in Operational Review tables	25.9	27.0	(3.8)	5.3	6.9	1.4	9.1	-	**71.8**

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

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2012

	Stratstone £m	Evans Halshaw £m	Quicks £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	**Total £m**
Other items included in the income statement are as follows:									
Depreciation	(5.5)	(9.1)	(0.2)	(1.5)	(20.1)	(0.1)	(0.8)	-	**(37.3)**
Amortisation	(0.7)	(0.7)	-	-	-	-	-	-	**(1.4)**
Share based payments	(0.5)	(0.4)	-	-	-	-	-	-	**(0.9)**
Impairment of assets held for sale	-	-	-	-	-	-	-	(5.4)	**(5.4)**
Reversal of impairment on assets classified as held for sale	-	-	-	-	-	-	-	1.3	**1.3**
VAT assessment provision and refunds	-	-	-	-	-	-	-	0.8	**0.8**
Professional fees	-	-	-	-	-	-	-	(0.4)	**(0.4)**
Losses on settlements or curtailments of pension scheme obligations	-	-	-	-	-	-	-	(0.6)	**(0.6)**
Other income - gains on the sale of businesses and property	-	-	-	-	-	-	-	0.4	**0.4**

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2011

	Stratstone £m	Evans Halshaw £m	Quicks £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	**Total £m**
Aftersales revenue	142.1	161.3	-	23.2	-	-	-	-	**326.6**
Used vehicle revenue	556.0	698.4	-	33.1	-	-	-	-	**1,287.5**
New vehicle revenue	591.8	818.3	-	105.8	-	-	-	-	**1,515.9**
Trade / wholesale revenue	43.7	170.7	-	7.5	-	-	-	-	**221.9**
Support businesses revenue	-	-	-	-	38.1	61.5	22.9	-	**122.5**
Total gross segment revenue	1,333.6	1,848.7	-	169.6	38.1	61.5	22.9	-	**3,474.4**
Inter-segment revenue	-	-	-	-	(21.2)	(21.3)	(13.7)	-	**(56.2)**
	1,333.6	1,848.7	-	169.6	16.9	40.2	9.2	-	**3,418.2**
Revenue from non-underlying activites	-	-	47.6	-	-	-	-	-	**47.6**
Revenue from external customers	1,333.6	1,848.7	47.6	169.6	16.9	40.2	9.2	-	**3,465.8**
Operating profit before other income and non-underlying items	31.9	26.0	-	5.7	6.8	2.2	9.1	(7.3)	**74.4**
Other income and non-underlying items	-	-	(4.4)	-	-	-	-	8.0	**3.6**
Operating profit	31.9	26.0	(4.4)	5.7	6.8	2.2	9.1	0.7	**78.0**
Finance expense	(3.3)	(4.1)	(0.4)	(1.5)	-	-	-	(73.7)	**(83.0)**
Finance income	-	-	-	-	0.2	-	0.4	28.4	**29.0**
Segmental profit before tax	28.6	21.9	(4.8)	4.2	7.0	2.2	9.5	(44.6)	**24.0**
Reconciliation to tables in Operational Review									
Operating profit before other income and non-underlying items	31.9	26.0	-	5.7	6.8	2.2	9.1	(7.3)	**74.4**
Allocation of central overheads	(3.0)	(3.4)	-	-	(0.3)	(0.3)	(0.3)	7.3	**-**
Result as presented in Operational Review tables	28.9	22.6	-	5.7	6.5	1.9	8.8	-	**74.4**

SECTION 2 - RESULTS AND TRADING

2.3 Operating segments *continued*

Year ended 31 December 2011

	Stratstone £m	Evans Halshaw £m	Quicks £m	California £m	Leasing £m	Quickco £m	Pinewood £m	Central £m	**Total £m**
Other items included in the income statement are as follows:									
Depreciation	(3.9)	(8.2)	(0.2)	(1.7)	(21.3)	(0.1)	(0.4)	-	**(35.8)**
Amortisation	(0.7)	(0.7)	-	-	-	-	-	-	**(1.4)**
Share based payments	(0.4)	(0.4)	-	-	-	-	-	-	**(0.8)**
Operating losses incurred in start-up businesses	-	-	(4.4)	-	-	-	-	-	**(4.4)**
Impairment of assets held for sale	-	-	-	-	-	-	-	(1.0)	**(1.0)**
VAT assessment provision and refunds	-	-	-	-	-	-	-	9.4	**9.4**
Professional fees	-	-	-	-	-	-	-	(0.8)	**(0.8)**
Other income - gains on the sale of businesses and property	-	-	-	-	-	-	-	0.4	**0.4**

Geographical information.

All segments, with the exception of California in the United States originate in the United Kingdom. The California segment has non-current assets of £18.0m (2011 : £20.1m).

SECTION 2 - RESULTS AND TRADING

2.4 Staff costs

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

	2012 Number	2011 Number
Sales	**2,778**	2,856
Aftersales	**4,260**	4,380
Administration	**2,223**	2,285
	9,261	9,521

Costs incurred in respect of these employees were:

	2012 £m	2011 £m
Wages and salaries	**230.9**	233.0
Social security costs	**21.7**	22.3
Contributions to defined contribution plans (see note 5.1)	**3.5**	3.7
Income recognised for defined benefit plans (see note 5.1)	**(2.8)**	(2.6)
Share based payments (see note 4.6)	**0.9**	0.8
	254.2	257.2

Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 62 to 80.

2.5 Audit fees

Auditors' remuneration:	2012 £000	2011 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**209.0**	222.0
Fees payable to the Company's auditor and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	**190.0**	205.0
Audit-related assurance services	**45.0**	30.0
Tax compliance services	**52.0**	52.0
Tax advisory services	**229.0**	136.0
Other assurance services	**47.0**	630.0
	772.0	1,275.0

SECTION 2 - RESULTS AND TRADING

2.6 Non-underlying items (before tax)

Non-underlying income and expenses are items that have non-trading attributes due to their size, nature or incidence.

	2012 £m	2011 £m
Within turnover:		
Turnover from start-up business	**-**	47.6
	-	47.6
Within cost of sales:		
Cost of sales of start-up business	**-**	(45.1)
	-	(45.1)
Within operating expenses:		
Operating expenses incurred in start-up business	**-**	(6.9)
Impairment of property, plant and equipment	**-**	(0.1)
Impairment of assets held for sale	**(5.4)**	(0.9)
Reversal of impairment on assets classified as held for sale (see note 3.4)	**1.3**	-
Professional fees	**-**	(0.8)
Pension scheme merger costs	**(0.4)**	-
Losses on settlements or curtailments of pension scheme obligations	**(0.6)**	-
VAT assessment refunds and provision reversal	**0.8**	9.4
	(4.3)	0.7
Within other income - gains on the sale of businesses and property:		
Losses on the sale of businesses	**(0.7)**	(0.2)
Gains on the sale of property	**1.1**	0.6
	0.4	0.4
Within finance expense:		
Interest on pension scheme obligations	**(18.8)**	(20.7)
Interest charge in start-up business	**-**	(0.4)
Refinancing fees and costs	**-**	(17.7)
	(18.8)	(38.8)
Within finance income:		
Interest on pension scheme assets	**22.2**	23.3
Interest on VAT refunds	**1.9**	5.1
	24.1	28.4
Total non-underlying items (before tax)	**1.4**	(6.8)
Total non-underlying items attributable to:		
Equity shareholders of the parent	**(0.6)**	(6.8)
Non-controlling interests (pension related)	**2.0**	-
	1.4	(6.8)

SECTION 2 - RESULTS AND TRADING

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

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

Group tangible fixed assets and assets held for sale have been reviewed for possible impairments in the light of economic conditions. As a result of this review there was an impairment charge against assets held for sale of £5.4m during the year (2011 : £0.9). There was no impairment charge recognised against tangible fixed assets (2011 : £0.1m). In addition a reversal of previous impairment charges of £1.3m was made for assets held for sale where anticipated proceeds less costs to sell have increased over their impaired carrying values.

During 2010 the Group set up a new business of used car stores operating under the Quicks brand. During the previous year further sites were added as the Group sought to build and establish the Quicks brand. As this business established itself the initial costs and subsequent trading losses incurred as the Group developed and promoted the brand which in 2011 amounted to £4.8m were presented as non-underlying in the prior year. For 2012, the results of the Quicks segment are shown within the underlying result of the Group.

The net financing return on pension obligations in respect of the defined benefit schemes closed to future accrual is shown as a non-underlying item due to the volatility of this amount. Net income of £3.4m has been recognised during the year (2011 : £2.6m), of which £2.0m is attributable to the non-controlling interests (2011 : £nil). During the year the Group's six defined benefit pension schemes were merged into the Pendragon Group Pension Scheme. As part of the process members whose value of benefits were below a set limit were entitled to a wind up lump sum in settlement of any future benefits. The cost recognised in settlement of these benefits was £0.6m. Costs were also incurred in relation to this transaction amounting to £0.4m. Due to the one-off nature of the pension merger these settlement and professional costs are shown as non-underlying.

Other income, being the profit on disposal of businesses and property, comprises a £1.1m profit on sale of properties (2011 : £0.6m) and a £0.7m loss on the disposal of motor vehicle dealerships (2011 : loss £0.2m).

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

In conjunction with the refinancing in 2011 the Group entered into a Pension Deficit Reduction Plan which is explained in more detail in note 5.1. The Group incurred professional fees of £0.8m in the previous year setting up this arrangement which because of their one-off nature are presented as non-underlying.

A VAT refund of £0.8m, net of costs, was received in the year in respect of VAT overpaid on demonstrator vehicles over the period from 1973 to 1996 (2011 : £4.7m). Associated interest received of £1.9m (2011 : £5.1m) is disclosed within finance income. During the previous year the Group completed discussions with HM Revenue & Customs in respect of the VAT treatment of sales of vehicles to certain disabled customers and reversed the remainder of the provision held in respect of this matter which amounted to £4.7m.

SECTION 2 - RESULTS AND TRADING

2.7 Taxation

Accounting policy

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

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

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

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

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

Estimates and judgements

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

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

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Taxation - Income statement

	2012 £m	2011 £m
UK corporation tax:		
Current tax on profit for the year	**0.8**	-
Adjustments in respect of prior periods	**(0.9)**	(0.2)
	(0.1)	(0.2)
Overseas taxation:		
Current tax on profit for the year	**1.8**	1.6
Adjustments in respect of prior periods	**(1.6)**	0.1
	0.2	1.7
Total current tax	**0.1**	1.5
Deferred tax expense / (credit):		
Origination and reversal of temporary differences	**9.5**	(17.5)
Benefit of tax losses recognised	**(0.8)**	0.2
Total deferred tax	**8.7**	(17.3)
Total income tax expense / (credit) in the income statement	**8.8**	(15.8)

Factors affecting the tax charge / (credit) for the period:
The tax assessed is different from the standard rate of corporation tax in the UK of 24.5% (2011 : 26.5%)

The differences are explained below:	2012 £m	2011 £m
Profit before taxation	**37.8**	24.0
Tax on profit at UK rate of 24.5% (2011 : 26.5%)	**9.3**	6.4
Differences:		
Tax effect of expenses that are not deductible in determining taxable profit	**0.3**	0.4
Permanent differences arising in respect of fixed assets	**(0.9)**	-
Unrecognised losses	**0.1**	0.2
Tax rate differential on overseas income	**0.7**	0.6
Non-underlying items (see below)	**0.4**	(20.0)
Impact of UK corporation tax rate change	**0.5**	0.9
Adjustments to tax charge in respect of previous periods	**(1.6)**	(4.3)
Total income tax expense / (credit) in the income statement	**8.8**	(15.8)

Taxation - Other comprehensive income

	2012 £m	2011 £m
Actuarial gains and losses	**5.7**	(3.7)

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

Tax rate

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014, and the December 2012 Autumn Statement announced a planned further reduction to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantially enacted at the balance sheet date.

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

Factors affecting the tax charge

The tax charge / credit is decreased / increased by the release of prior year provisions relating to UK corporation tax returns and the tax charge / credit is increased / decreased by non-deductible expenses including the impairment of goodwill and non-qualifying depreciation.

Non-underlying tax charge / credit

The current tax charge in relation to the non-underlying items referred to in note 2.6 was £0.8m (2011 : tax credit £21.5m). This comprises a tax charge of £0.8m (2011: credit £1.5m) in respect of net non-underlying income of £1.4m (2011 : net expenses £6.8m). In addition during the prior year a non-underlying deferred tax credit of £20.0m was recognised, relating to the release of provisions no longer required in respect of tax deferred on the original disposal of properties to the Group's property joint venture. An asset disposal programme conducted by the joint venture resulted in crystallisation of tax liabilities in a depressed property sector at amounts significantly lower than the values tax was originally deferred on.

Unrecognised deferred tax assets

There are unutilised tax losses within the Group of £19.7m (2011: £19.2m) relating to overseas businesses for which no deferred tax asset has been recognised pending the 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:

	2012 £m	2011 £m
Deferred tax assets	**24.4**	29.7
Deferred tax liabilities	**(14.0)**	(16.0)
	10.4	13.7

SECTION 2 - RESULTS AND TRADING

2.7 Taxation *continued*

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

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

	At 1 January 2012 £m	(Charged) / credited to consolidated income statement £m	Debited to equity £m	Exchange differences £m	**At 31 December 2012 £m**
Property, plant and equipment	(1.1)	(5.9)	-	(0.2)	**(7.2)**
Retirement benefit obligations	2.2	(0.9)	5.7	-	**7.0**
Other short term temporary differences	12.6	(2.7)	-	(0.1)	**9.8**
Losses	-	0.8	-	-	**0.8**
Tax assets / (liabilities)	13.7	(8.7)	5.7	(0.3)	**10.4**

2.8 Earnings per share

Accounting policy

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

SECTION 2 - RESULTS AND TRADING

2.8 Earnings per share *continued*

Earnings per share calculation

	2012 Earnings per share pence	**2012 Earnings Total £m**	2011 Earnings per share pence	2011 Earnings Total £m
Basic earnings per share	**1.9**	**27.0**	3.7	39.8
Adjusting items:				
Non-underlying items attributable to the parent (see note 2.6)	**-**	**0.6**	0.6	6.8
Tax effect of non-underlying items	**0.1**	**0.8**	(2.0)	(21.5)
Underlying earnings per share (Non GAAP measure)	**2.0**	**28.4**	2.3	25.1
Diluted earnings per share	**1.9**	**27.0**	3.6	39.8
Diluted earnings per share - underlying (Non GAAP measure)	**2.0**	**28.4**	2.2	25.1

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

	2012 number	2011 number
Weighted average number of ordinary shares in issue	**1,404.5**	1,085.6
Weighted average number of dilutive shares under option	**16.5**	30.1
Weighted average number of shares in issue taking account of applicable outstanding share options	**1,421.0**	1,115.7
Non-dilutive shares under option	**54.8**	57.3

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

SECTION 3 - OPERATING ASSETS AND LIABILITIES

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

3.1 Intangible assets and goodwill

Accounting policies

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

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

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

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses and is amortised over a period of 5 years.

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

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

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

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

Activity

	Goodwill £m	Development costs £m	Other intangibles £m	**Total £m**
Cost				
At 1 January 2011	438.1	4.1	13.4	**455.6**
Additions	-	1.3	0.4	**1.7**
Disposals	-	-	(0.1)	**(0.1)**
At 31 December 2011	438.1	5.4	13.7	**457.2**
At 1 January 2012	438.1	5.4	13.7	**457.2**
Additions	1.0	1.6	0.4	**3.0**
Disposals of businesses	(0.5)	-	-	**(0.5)**
Disposals	-	-	(0.1)	**(0.1)**
At 31 December 2012	438.6	7.0	14.0	**459.6**
Amortisation				
At 1 January 2011	70.4	1.6	12.4	**84.4**
Amortised during the year	-	1.0	0.4	**1.4**
Disposals	-	-	(0.1)	**(0.1)**
At 31 December 2011	70.4	2.6	12.7	**85.7**
At 1 January 2012	70.4	2.6	12.7	**85.7**
Amortised during the year	-	1.2	0.2	**1.4**
Disposals	-	-	(0.1)	**(0.1)**
At 31 December 2012	70.4	3.8	12.8	**87.0**
Carrying amounts				
At 1 January 2011	367.7	2.5	1.0	**371.2**
At 31 December 2011	367.7	2.8	1.0	**371.5**
At 1 January 2012	367.7	2.8	1.0	**371.5**
At 31 December 2012	368.2	3.2	1.2	**372.6**

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

	2012 £m	2011 £m
Amortisation of internally generated intangible assets	**1.2**	1.0
Amortisation of other intangible assets	**0.2**	0.4
Research and development costs	**0.5**	0.7

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

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 with reference to the Group's forecasts from 2013 to 2017. These forecasts are based on key assumptions for the aftersales, used and new sectors. The aftersales sector has been forecast based on assumptions for the nearly new car parc (the key market segment for the business). The used sector forecast is based on modest underlying growth in the used car market. The new sector forecast is based on a weighted average assumption for the new car market growth rates from the Society of Motor Manufacturers and Traders, British Car Motor Auctions and University of Buckingham data and consideration of the new car recovery profile from historical data. For each of these sectors the forecast assumption is that gross margins will be stable. These forecasts have been approved by the directors and form the basis of the growth assumptions for future cashflows from 2013 to 2017.

It is anticipated that the units will grow revenues in the future, for the purpose of the impairment testing, a growth rate of 2% (2011 : 2%) has been assumed beyond the business plan.

The discount rates are estimated based on the Group's cost of capital which is calculated after consideration of market information and risk adjusted for individual circumstances. With all units carrying a goodwill value operating in the UK and in the motor retail or related sector a single pre-tax discount rate of 12.2% has been applied (2011 : 11.3%).

Neither a 1% increase in the discount rate or a 2% reduction in the post business plan growth rate would result in any additional impairment being required.

During the year the Group acquired a BMW and MINI dealership in Leeds for a total consideration of £2.6m, of which £1.0m was allocated to goodwill.

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

	BMW £m	Ford £m	Mercedes £m	Vauxhall £m	Others £m	**Total £m**
At 1 January 2011 and at 31 December 2011	31.1	71.6	47.8	77.8	139.4	**367.7**
At 1 January 2011	31.1	71.6	47.8	77.8	139.4	**367.7**
Additions	1.0	-	-	-	-	**1.0**
Disposals	-	-	-	-	(0.5)	**(0.5)**
At 31 December 2012	32.1	71.6	47.8	77.8	138.9	**368.2**

Goodwill by segment

	2012 £m	2011 £m
Stratstone	**134.5**	134.0
Evans Halshaw	**210.7**	210.7
Quickco	**0.7**	0.7
Pinewood	**0.3**	0.3
Contract Hire	**22.0**	22.0
	368.2	367.7

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.1 Intangible assets and goodwill *continued*

In 2008 goodwill impairments in respect of Land Rover and USA of £12.3m and £14.0m respectively were made. Whilst the reversal of an impairment loss is not recognised in subsequent periods, the cashflow projections of both the Land Rover CGU and USA CGU in 2013 now indicates that, if permitted, the impairments could have been reversed.

3.2 Property, plant and equipment

Accounting policy

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

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

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

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

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

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

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment *continued*

Activity

	Land & buildings £m	Plant & equipment £m	Restated* Motor vehicles £m	Restated* Contract hire vehicles £m	**Total £m**
Cost					
At 1 January 2011	206.4	63.6	37.0	97.6	**404.6**
Additions	6.9	7.8	55.8	55.9	**126.4**
Disposal of businesses	-	(1.6)	-	-	**(1.6)**
Other disposals	(3.7)	(1.7)	(54.3)	-	**(59.7)**
Contract hire vehicles transferred to inventory	-	-	-	(49.5)	**(49.5)**
Classified as non-current assets held for sale	(5.6)	-	-	-	**(5.6)**
Reinstated from non-current assets held for sale	0.4	-	-	-	**0.4**
At 31 December 2011	204.4	68.1	38.5	104.0	**415.0**
At 1 January 2012	204.4	68.1	38.5	104.0	**415.0**
Additions	3.3	6.8	57.7	35.9	**103.7**
Business acquisitions	-	0.2	-	-	**0.2**
Exchange adjustments	(1.4)	(0.3)	-	-	**(1.7)**
Disposal of businesses	(0.9)	(1.2)	-	-	**(2.1)**
Other disposals	(1.5)	(8.8)	(63.1)	-	**(73.4)**
Contract hire vehicles transferred to inventory	-	-	-	(32.2)	**(32.2)**
Classified as non-current assets held for sale	(13.7)	-	-	-	**(13.7)**
Reinstated from non-current assets held for sale	9.1	-	-	-	**9.1**
At 31 December 2012	199.3	64.8	33.1	107.7	**404.9**
Depreciation					
At 1 January 2011	29.3	43.0	15.4	32.4	**120.1**
Charge for the year	3.5	6.4	7.8	18.1	**35.8**
Impairment	-	0.1	-	-	**0.1**
Disposal of businesses	-	(1.4)	-	-	**(1.4)**
Other disposals	(2.1)	(0.9)	(11.0)	-	**(14.0)**
Contract hire vehicles transferred to inventory	-	-	-	(24.9)	**(24.9)**
Classified as non-current assets held for sale	(0.3)	-	-	-	**(0.3)**
Reinstated from non-current assets held for sale	0.2	-	-	-	**0.2**
At 31 December 2011	30.6	47.2	12.2	25.6	**115.6**
At 1 January 2012	30.6	47.2	12.2	25.6	**115.6**
Exchange adjustments	(0.4)	(0.2)	-	-	**(0.6)**
Charge for the year	4.5	6.9	6.4	19.5	**37.3**
Disposal of businesses	(0.1)	(0.8)	-	-	**(0.9)**
Other disposals	(1.0)	(8.0)	(11.7)	-	**(20.7)**
Contract hire vehicles transferred to inventory	-	-	-	(16.1)	**(16.1)**
Classified as non-current assets held for sale	(2.4)	-	-	-	**(2.4)**
Reinstated from non-current assets held for sale	2.4	-	-	-	**2.4**
At 31 December 2012	33.6	45.1	6.9	29.0	**114.6**

* Restated to sub divide the motor vehicle category into contract hire vehicles and motor vehicles

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.2 Property, plant and equipment *continued*

	Land & buildings £m	Plant & equipment £m	Restated* Motor vehicles £m	Restated* Contract hire vehicles £m	**Total £m**
Carrying amounts					
At 1 January 2011	177.1	20.6	21.6	65.2	**284.5**
At 31 December 2011	173.8	20.9	26.3	78.4	**299.4**
At 1 January 2012	173.8	20.9	26.3	78.4	**299.4**
At 31 December 2012	165.7	19.7	26.2	78.7	**290.3**

* Restated to sub-divide the motor vehicle category into contract hire vehicles and motor vehicles

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

	Land & buildings £m	Motor vehicles £m	**Total £m**
Depreciation			
Charge for the year	-	-	**-**
Carrying amounts			
At 31 December 2011	0.3	0.1	**0.4**
At 31 December 2012	0.3	-	**0.3**

		2012 £m	2011 £m
Building projects currently under construction for which no depreciation has been charged during the year		**2.3**	2.0
Future capital expenditure which has been contracted for but not yet provided in the financial statements - property development and refurbishment		**0.5**	-
Cumulative interest charges capitalised as construction costs and included in land and buildings		**0.8**	0.7
The following items have been charged to the income statement as operating expenses during the year:			
Depreciation of property, plant and equipment	- owned	**37.3**	35.6
	- held under finance leases	**-**	0.2
Impairment of property, plant and equipment		**-**	0.1

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.3 Interest in joint venture

The Group has a 51% ordinary share capital interest in a joint venture PPH0 Limited, a company that is incorporated and trading in the United Kingdom. PPH0 Limited in turn owns 100% of PPH1 Limited whose principal activity is that of a property company. The joint venture is accounted for under the equity accounting method. The directors made a full provision of £6.2m against the carrying value of the investment in 2008 due to the difficulties faced by PPH1 Limited in adhering to its existing financial covenants. During 2010, PPH1 Limited's financing arrangements were restructured. The restructuring involved, inter alia, the issue of warrants over a new class of shares so that, provided there is full take up of the warrants (which can not be exercised before 2013 except in specific circumstances) the Group's holding will reduce to 30%. As at the balance sheet date the value of the investment was assessed to still be impaired as set out below.

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

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

	2012 £m	2011 £m
Non-current assets	**192.4**	196.4
Current assets	**10.2**	12.1
Current liabilities	**(8.8)**	(8.7)
Non-current liabilities	**(205.0)**	(219.7)
Net liabilities of joint venture company	**(11.2)**	(19.9)

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

The carrying value of the Group's investment in the joint venture remains impaired at 31 December 2012. For this reason no further profit or loss is recognised in these financial statements in respect of the trading result of the joint venture for the year ended 31 December 2012. The financial statements in respect of the year ended 31 December 2012 are yet to be finalised.

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

	2012 £m	2011 £m
Income	**18.1**	20.0
Expenses	**(13.8)**	(16.0)
Income tax expense	**(0.9)**	(0.5)
Profit after tax	**3.4**	3.5

PPH0 Limited has borrowings secured on its land and buildings.

At 31 December 2012 PPH0 Limited has no contractual capital commitments.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.4 Non-current assets classified as held for sale

Accounting policy

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

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

Balance sheet

The Group holds a number of freehold and long leasehold properties that are currently being marketed for sale which are expected to be disposed of during 2013.

Properties are valued using a combination of external qualified valuers and in-house experts. Due to the nature of the market, especially in light of current economic conditions, a property may ultimately realise proceeds that vary from those valuations applied.

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

These properties form part of central segment assets.

Income statement

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

	Income statement category	**2012 £m**	2011 £m
Profit on sale of assets classified as held for sale	Other income - gains on the sale of businesses and property	**0.8**	-
Reversal of impairment on assets classified as held for sale	Net operating expenses	**1.3**	-
Impairment of assets held for sale	Net operating expenses	**(5.4)**	(0.9)

If the fair value less costs to sell assigned to each property were to be reduced by 10% a further impairment loss of £2.0m would have been recognised (2011 : £1.2m).

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.5 Inventories

Accounting policies

Motor vehicle inventories are stated at the lower of cost and fair value less costs to sell. Cost is net of incentives received from manufacturers in respect of target achievements. Fair values are assessed using market research data which is based upon recent industry activity. Whilst this data is deemed representative of current values it is possible that ultimate sales values can vary from those applied. Parts inventories are based on an average purchase cost principle and are written down to net realisable value by providing for obsolescence on a time in stock based formula approach.

Consignment vehicles are regarded as being effectively under the control of the Group and are included within inventories on the balance sheet as the Group has the significant risks and rewards of ownership even though legal title has not yet passed. The corresponding liability is included in trade and other payables. Movements in consignment vehicle inventory and its corresponding liability within trade and other payables are not included within movements of inventories and payables as stated in the consolidated cash flow statement as no cash flows arise in respect of these transactions until the vehicle is either sold or purchased at which point it is reclassified within new and used vehicle inventory.

Motor vehicles are transferred from contract hire activities at the end of their lease term to inventory at their depreciated cost. No cash flow arises from these transfers.

Balance Sheet

	2012 £m	2011 £m
New and used vehicles	**506.3**	472.4
Consignment vehicles	**53.0**	56.8
Vehicle parts and other inventories	**30.7**	36.2
	590.0	565.4

Income Statement

	2012 £m	2011 £m
Inventories recognised as an expense during the year	**3,153.8**	2,995.2
Inventories stated at net realisable value	**51.7**	94.7
Carrying value of inventories subject to retention of title clauses	**392.2**	401.7
Credit recognised in respect of the movement of inventory provisions	**3.0**	1.5

Cash flow Statement

	2012 £m	2011 £m
Movement in inventory	**(24.6)**	(72.6)
Inventory changes in business combinations and disposals	**0.2**	(1.0)
Impact of exchange differences	**0.5**	-
Non cash movement in consignment vehicles	**(3.8)**	15.7
Transfer value of contract hire vehicles from fixed assets to inventory	**16.1**	24.6
Cash flow decrease due to movements in inventory	**(11.6)**	(33.3)

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.6 Movement in contract hire vehicle balances

	2012 £m	2011 £m
Depreciation	**19.5**	18.1
Changes in trade and other payables and deferred income	**0.2**	12.6
Purchases of contract hire vehicles	**(35.9)**	(55.9)
Unwinding of discounts in contract hire residual values	**(1.7)**	(1.5)
	(17.9)	(26.7)

3.7 Trade and other receivables

Accounting policy

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

Credit risk management

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

Before granting any new customer credit terms the Group uses external credit scoring systems to assess the potential new customer's credit quality and defines credit limits by customer. These limits and credit worthiness are regularly reviewed and use is made of monitoring alerts provided by the providers of the credit scoring systems. The Group has no customer that represents more than 5% of the total balance of trade receivables.

Balance Sheet

	2012 £m	2011 £m
Trade receivables	**41.8**	42.1
Allowance for doubtful debts	**(0.1)**	(0.2)
	41.7	41.9
Other receivables	**38.1**	40.6
Prepayments	**17.6**	18.8
	97.4	101.3

All amounts are due within one year.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.7 Trade and other receivables *continued*

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

Total trade receivables held by the Group at 31 December 2012 was £41.7m (2011 : £41.9m). No trade receivables have been classified as held for sale (2011 : £nil). Receivables of the California segment are £6.2m (2011 : £5.4m).

The average credit period taken on sales of goods is 29 days (2011 : 29 days). No interest is charged on trade receivables. The Group makes an impairment provision for all debts that are considered unlikely to be collected plus a proportion of all debts over 120 days past their due date. An expense has been recognised in respect of impairment losses during the year of £0.2m (2011 : £0.5m). The impairment is in respect of items that are aged greater than 120 days.

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

	Trade receivables 2012 £m	**Other receivables 2012 £m**	Trade receivables 2011 £m	Other receivables 2011 £m
Not past due	**29.3**	**33.6**	28.2	35.9
Past due 0-30 days	**9.8**	**2.1**	10.3	2.7
Past due 31-120 days	**2.4**	**2.4**	2.8	2.0
Past due 120+ days subject to impairment	**0.3**	**-**	0.8	-
	41.8	**38.1**	42.1	40.6
Provision for impairment	**(0.1)**	**-**	(0.2)	-
	41.7	**38.1**	41.9	40.6

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

	2012 £m	2011 £m
Balance at 1 January	**0.2**	0.5
Utilisation	**(0.3)**	(0.8)
Impairment loss recognised	**0.2**	0.5
Balance at 31 December	**0.1**	0.2

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

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.8 Trade and other payables

Accounting policy

Trade and other payables are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses. Their contracted cashflows are expected to mature within 12 months of the balance sheet date.

Balance sheet

	2012 £m	Restated* 2011 £m
Trade payables	**559.1**	563.4
Contract hire buyback commitment	**33.1**	34.4
Consignment vehicle liabilities	**52.8**	56.8
Payments received on account	**15.6**	13.5
Other taxation and social security	**16.3**	8.3
Accruals	**86.6**	80.9
	763.5	757.3
Non-current	**23.7**	21.1
Current	**739.8**	736.2
	763.5	757.3

*Restated to reflect the reclassification of contract hire deferred income as outlined in Section 1 above. In addition contract hire buyback commitments have been separately disclosed having previously been shown within accruals.

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

The non-current element of trade and other payables relates to vehicles the Group has contracted to repurchase, at predetermined values and dates, that have been let under operating leases or similar arrangements.

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

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.9 Provisions

Accounting policy

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

Warranty cost provision

The costs of meeting claims under warranty policies sold are provided to the extent that the current rate of expenditure incurred is in excess of the expected rate of claim settlements. The expected rate of claims expenditure against income is based upon historic data and no provision is deemed necessary when the current rate of expenditure falls below this.

Vacant property provision

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

The vacant property provision is comprised of the future costs of vacated properties, being predominantly future lease commitments less any contributions from income derived from the sub-letting of these properties. The present value of future net lease commitments is calculated using a 4% discount rate. It is expected that the majority of this expenditure will be incurred over the next three years. The present value of the income from the sub-leases is £5.9m over the period of the leases and assumes that any sub-let properties will remain so until the end of the sub-lease.

VAT assessment

The Group has retained a provision of £0.8m in respect of potential VAT issues arising from sales to finance companies, the settlement of which is expected to be concluded in the forthcoming year.

The movements in provisions for the year are as follows:

	Restated* Warranty cost provision £m	Vacant property provision £m	VAT assessment £m	**Total £m**
At 31 December 2011	1.1	7.0	0.8	**8.9**
Provisions made during the year	-	0.4	-	**0.4**
Provisions used during the year	-	(1.2)	-	**(1.2)**
Provisions reversed during the year	(1.1)	(1.1)	-	**(2.2)**
At 31 December 2012	-	5.1	0.8	**5.9**
Non-current	-	3.5	-	**3.5**
Current	-	1.6	0.8	**2.4**
	-	5.1	0.8	**5.9**

* Restated to reflect the reclassification of warranty deferred income from provisions as outlined in Section 1 above.

SECTION 3 - OPERATING ASSETS AND LIABILITIES

3.10 Deferred income

Property leases

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. In addition, the leases include fixed rental increases.

Warranty policies sold

The income received in respect of warranty policies sold and administered by the Group is recognised over the period of the policy on a straight line basis. The unrecognised income is held within deferred income.

Contract hire

Vehicles supplied to a leasing company for contract hire purposes where the Group undertakes to repurchase the vehicle at a predetermined date are accounted for in accordance with IAS 17 'Leases', where the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the leasing company are allocated between the present value of the repurchase commitment, held within trade and other payables and a residual amount of deferred revenue held within deferred income. The 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.

	Property leases £m	Restated* Warranty policies £m	Restated* Contract hire £m	**Total £m**
At 31 December 2011	18.9	5.8	42.4	**67.1**
Created in year	-	2.6	10.4	**13.0**
Recognised as income during the year	(0.9)	(2.5)	(8.9)	**(12.3)**
At 31 December 2012	18.0	5.9	43.9	**67.8**
Non-current	17.7	3.0	24.1	**44.8**
Current	0.3	2.9	19.8	**23.0**
	18.0	5.9	43.9	**67.8**

* Restated to reflect the reclassification of contract hire and warranty deferred income as outlined in Section 1 above.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

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

4.1 Accounting policies

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expires. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged and cancelled. Financial instruments comprise both derivative and non-derivative financial instruments.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Trade and other receivables - see note 3.7

Cash and cash equivalents

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

Loans and borrowings

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

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

Trade and other payables - see note 3.8

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.1 Accounting policies *continued*

Derivative financial instruments

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

Hedging

(i) Fair value hedges
Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised within finance costs or finance income, as appropriate, in the income statement. The carrying amount of the hedged item is adjusted for any gain or loss attributable to the risk being hedged with any gain or loss also recognised within finance costs or finance income, as appropriate, in the income statement. This will result in variations in the balance sheet values of the gross debt and the offsetting derivatives as the market value fluctuates. If the hedging instrument no longer meets the criteria for hedge accounting or is terminated then hedge accounting is discontinued prospectively.

(ii) Hedges of net investments in overseas operations
A gain or loss in respect of an effective hedge of a net investment in an overseas operation is recognised directly in equity. Any ineffective portion of the hedge is recognised in the income statement.

4.2 Financial instruments and derivatives

Net debt

	2012 £m	2011 £m
Cash and cash equivalents	**58.0**	101.4
Current interest bearing loans and borrowings	**(60.4)**	(64.3)
Non-current interest bearing loans and borrowings	**(228.2)**	(305.4)
Derivative financial instruments	**14.2**	21.5
	(216.4)	(246.8)

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 2012 £m	Carrying value & fair value 2011 £m
Bank balances and cash equivalents	**58.0**	101.4

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Borrowings

As at 31 December 2012, the Group had a £238.8m credit facility and loan notes totalling USD 131.0m and GBP 12.9m (with an equivalent GBP hedged liability of £81.7m) in respect of the Group's UK business activities, expiring as set out below:

Term loan	Expiry date	£m
	June 2013	**13.85**
	December 2013	**13.85**
	June 2014	**64.60**
Total term loan		**92.30**
Revolving credit facility	June 2014	**146.49**
		238.79

Loan notes	Expiry date	USD loan notes $m	GBP loan notes £m	**Hedged equivalent £m**
	June 2013	9.91	0.95	**6.16**
	December 2013	9.91	0.95	**6.16**
	June 2014	111.18	10.96	**69.42**
		131.00	12.86	**81.74**

Financing of overseas businesses

At 31 December 2012, the following facilities were in place:

	Currency	**Amount £m**	Expiry date
Netherlands	Floating GBP	**4.0**	Earlier of March 2013 or on demand
		5.0	Earlier of August 2013 or on demand
		11.3	Earlier of August 2014 or on demand
		20.3	

During 2012 loan facilities of £1.0m were cancelled and repaid out of the proceeds of a property disposal.

	Currency	**Amount $m**	Expiry date
USA	Floating USD	**3.3**	Earlier of August 2013 or on demand
		0.4	Earlier of August 2014 or on demand
		3.7	

During 2012, USD 3.0m of facilities were cancelled and repaid out of the proceeds of a property disposal, in addition to a scheduled facility reduction of USD 3.3m.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Finance Terms

Margin

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

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

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

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

Overseas facilities	Margin
Netherlands	3.25%
USA	2.75%

The Netherlands facility also has a fee payable at maturity of 5% of the average outstanding commitment over the term to August 2014, payable at maturity. This fee is accrued over the period to maturity. The total expensed to profit and loss during 2012 was £0.3m and the total accrual at 31 December 2012 was £0.4m.

Covenants

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

Security

The Group has granted security over certain of its assets, not subject to any other arrangements, comprising property, plant and equipment of £185.4m, trade and other receivables of £79.8m and certain vehicle inventories of £5.7m.

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

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Summary of borrowings

	Carrying value 2012 £m	**Fair value 2012 £m**	Carrying value 2011 £m	Fair value 2011 £m
Non-current:				
Bank borrowings	**142.9**	**142.9**	200.4	200.4
9.310% USD 110m loan notes 2014 (formerly 2012)	**44.6**	**44.6**	55.3	55.3
9.310% USD 67m loan notes 2014	**27.1**	**27.1**	33.8	33.8
9.834% GBP 17m loan notes 2014	**11.9**	**11.9**	14.2	14.2
Other loan notes	**0.2**	**0.2**	0.2	0.2
Finance leases	**1.5**	**1.5**	1.5	1.5
Total non-current	**228.2**	**228.2**	305.4	305.4
Current:				
Bank borrowings	**48.0**	**48.0**	51.9	51.9
9.310% USD 110m loan notes 2014 (formerly 2012)	**6.5**	**6.5**	6.5	6.5
9.310% USD 67m loan notes 2014	**4.0**	**4.0**	3.9	3.9
9.834% GBP 17m loan notes 2014	**1.9**	**1.9**	1.9	1.9
Finance leases	**-**	**-**	0.1	0.1
Total current	**60.4**	**60.4**	64.3	64.3
Total borrowings	**288.6**	**288.6**	369.7	369.7

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Fair value hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:
Level 1: quoted prices in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The effective interest rates for all borrowings after taking into account derivative financial instruments are all based on LIBOR for the relevant currency. Finance leases are effectively held at fixed rates of interest within the range set out below. Information regarding classification of balances and interest, the range of interest rates applied in the year to 31 December 2012 and repricing periods, is set out in the table below:

	Classification	Carrying value £m	Classification	Interest classification	Interest rate range	Effect of interest rate and currency swaps	Swapped interest rate range	Repricing periods
Bank balances and cash equivalents	Loans and receivables	**58.0**	Amortised cost	Floating GBP	0.45% - 2.00%	n/a	n/a	6 months or less
Borrowings								
Non-current:								
Bank borrowings	Other financial liabilities	**119.6**	Amortised cost	Floating GBP	3.73% - 4.25%	n/a	n/a	6 months or less
Bank borrowings	Other financial liabilities	**23.3**	Amortised cost	Floating USD	3.45% - 3.78%	n/a	n/a	6 months or less
9.310% USD 110m loan notes 2014 (formerly 2012)	Other financial liabilities	**44.6**	Amortised cost *	Fixed USD	9.31%	Floating GBP	9.91% - 10.35%	6 months or less
9.310% USD 67m loan notes 2014	Other financial liabilities	**27.1**	Amortised cost *	Fixed USD	9.31%	Floating GBP	9.91% - 10.35%	6 months or less
9.834% GBP 17m loan notes 2014	Other financial liabilities	**11.9**	Amortised cost *	Fixed GBP	9.83%	Floating GBP	5.69% - 6.13%	6 months or less
Other loan notes	Other financial liabilities	**0.2**	Amortised cost	Fixed GBP	12.50%	n/a	n/a	n/a
Finance leases	Other financial liabilities	**1.5**	Amortised cost	Fixed GBP	6.00% - 7.93%	n/a	n/a	n/a
Total non-current		**228.2**						
Current:								
Bank borrowings	Other financial liabilities	**48.0**	Amortised cost	Floating GBP	3.73% - 4.34%	n/a	n/a	6 months or less
Bank borrowings	Other financial liabilities	**-**	Amortised cost	Floating USD	2.94% - 3.50%	n/a	n/a	6 months or less
9.310% USD 110m loan notes 2014 (formerly 2012)	Other financial liabilities	**6.5**	Amortised cost *	Fixed USD	9.31%	Floating GBP	9.91% - 10.35%	6 months or less
9.310% USD 67m loan notes 2014	Other financial liabilities	**4.0**	Amortised cost *	Fixed USD	9.31%	Floating GBP	9.91% - 10.35%	6 months or less
9.834% GBP 17m loan notes 2014	Other financial liabilities	**1.9**	Amortised cost *	Fixed GBP	9.83%	Floating GBP	5.69% - 6.13%	6 months or less
Finance leases	Other financial liabilities	**-**	Amortised cost	Fixed GBP	6.00% - 7.93%	n/a	n/a	n/a
Total current		**60.4**						
Total borrowings		**288.6**						

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

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The carrying amounts of the Group's borrowings are denominated in the following currencies after taking into consideration currency swaps:

	2012 £m	2011 £m
Pound sterling	**265.3**	348.4
US dollar	**23.3**	21.3
	288.6	369.7

Treasury policy, financial risk, funding and liquidity management

Financial risk management

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

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

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

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

The Group's quantitative exposure to these risks is explained throughout these financial statements whilst the Group's objectives and management of these risks is set out below.

Treasury policy and procedures

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

Funding and liquidity management

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

Each business within the Group is responsible for its own day to day cash management and the overall cash position is monitored on a daily basis by the group treasury department. Where our overseas subsidiaries borrow to fund their businesses they do so independently of and without recourse to the UK parent company.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The maturity of non-current borrowings is as follows:

	2012 £m	2011 £m
Between 1 and 2 years	**226.7**	40.0
Between 2 and 5 years	**0.4**	263.7
Over 5 years	**1.1**	1.7
	228.2	305.4

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

	Carrying amount	Contractual cashflows	Within 6 months	6-12 months	1-2 years	2-5 years	over 5 years
Bank borrowings	190.9	201.3	37.8	17.3	146.2	-	-
Loan notes	96.2	109.0	9.7	9.3	90.0	-	-
Finance leases	1.5	6.4	-	0.1	0.1	0.4	5.8
	288.6	316.7	47.5	26.7	236.3	0.4	5.8

The Group has the following undrawn borrowing facilities:

	2012 £m	2011 £m
Expiring in more than one year but not more than two years	**68.2**	-
Expiring in more than two years	**-**	38.4
	68.2	38.4

Interest rate risk management

The objective of the Group's interest rate policy is to minimise interest costs whilst protecting the Group from adverse movements in interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk whereas borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group does not actively manage cash flow interest rate risk as the Board believes that the retail sector in which the Group operates provides a natural hedge against interest rate movements. Consequently, it is group policy to borrow on a floating rate basis and all fair value interest rate risk arising from fixed rate borrowings entered into by the Group are managed by swaps into floating rate.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Interest rate risk sensitivity analysis

As all of the Group's borrowings and vehicle stocking credit lines, after taking into account the effect of swaps, are floating rate instruments they therefore have a sensitivity to changes in market rates of interest. The table below shows the effect of a 100 basis points change in interest rates for floating rate instruments outstanding at the period end, showing how profit or loss would have varied in the period on the assumption that the instruments at the period end were outstanding for the entire period.

	Profit / (loss) 2012 £m	Profit / (loss) 2011 £m
100 bps increase	**(5.4)**	(6.2)
Tax effect	**1.4**	1.6
Effect on net assets	**(4.0)**	(4.6)
100 bps decrease	**5.4**	6.2
Tax effect	**(1.4)**	(1.6)
Effect on net assets	**4.0**	4.6

Foreign exchange risk management

The Group faces currency risk in respect of its net assets denominated in currencies other than sterling. On translation into sterling, movements in currency will affect the value of these assets. The Group's policy is therefore to match, where possible, net assets in overseas subsidiaries which are denominated in a foreign currency with borrowings in the same currency. The Group has therefore borrowed USD 38.0m (2011 : USD 28.0m) against its net assets held in overseas subsidiaries.

Where the Group borrows in a foreign currency to finance assets denominated in sterling the Group would generally seek to swap borrowings into sterling. The Group has taken out hedges to effectively swap all of its fixed rate loan notes denominated in US dollars into floating rate sterling. The Group has the following hedge designations:

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

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Accounting for derivative financial instruments and hedging activities

The Group holds derivative financial instruments to hedge currency and interest risks arising from its activities. Derivative financial instruments are measured at fair value at each balance sheet date. Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised in the income statement. The hedged item is also stated, separately from the derivative, at fair value in respect of the risk being hedged with any gain or loss also recognised in the income statement. This will result in variations in the balance sheet values of the hedged item and the offsetting derivatives as the market value fluctuates. The fair value of derivatives and hedged items is the estimated amount receivable or payable to terminate the contract determined by reference to calculations provided by certain financial institutions utilising market prices prevailing at the balance sheet date.

Hedges

Fair value hedges of interest rate and currency risk

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

Fair value hedge	**Assets carrying value & fair value 2012 £m**	Assets carrying value & fair value 2011 £m
Currency and interest swap (USD 110m / GBP : fixed rate to floating rate) expiring 2014	**8.2**	12.5
Currency and interest swap (USD 67m / GBP : fixed rate to floating rate) expiring 2014	**5.0**	7.6
Interest swap (GBP 17m : fixed rate to floating rate) expiring 2014	**1.0**	1.4
Total	**14.2**	21.5

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

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

	2012 £m	2011 £m
Change in fair value of hedged item - loan notes	**(7.3)**	(5.3)
Change in fair value of hedging item - derivative financial instruments	**7.3**	5.5
Net fair value loss - recognised within finance expense	**-**	0.2

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

Hedges of net investments in overseas operations

A gain or loss in respect of an effective hedge of a net investment in an overseas operation is recognised directly in equity. Any ineffective portion of the hedge is recognised in the income statement.

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

	2012 $m	2011 $m
Aggregate fair value of borrowings designated as hedge of net investment in the Group's US subsidiaries	**38.0**	28.0

	£m	£m
Foreign exchange gain / (loss) on translation of borrowings to sterling at balance sheet date	**1.2**	(0.1)
Foreign exchange (loss) / gain on translation of net investments to sterling at balance sheet date	**(1.3)**	0.3
Net exchange (loss) / gain recognised within translation reserve in equity	**(0.1)**	0.2

Capital management

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

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

	2012 £m	2011 £m
Manufacturer finance arm	**409.2**	399.1
Third party stock finance	**122.3**	129.1
Bank	**58.5**	37.2
Total inventories	**590.0**	565.4

When considering vehicle stocks from a funding risk view point we split the funding into that which is funded by the vehicle manufacturers through their related finance arms and that funded by ourselves through stock finance facilities and bank borrowings. Financing for stock other than through bank borrowings is shown in trade creditors in the balance sheet. Manufacturers' finance arms tend to vary the level of finance facilities offered dependent on the amount of stocks their manufacturer wishes to put into the network and this varies depending on the time of year and the level of production.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The Group is also responsible for funding the pension deficit. Further to the Group's refinancing during 2011, the Group agreed a pension transaction which eliminated the pension deficit at 31 December 2011 and significantly reduced the expected cash outflow over the subsequent three years. Under this transaction the Group provides the pension scheme with an investment which generates a predictable property asset-backed income and which consequently unlocked aggregate cash flow savings for the Group of an estimated £46m in the period from December 2011 to December 2014. The total financial resources required by the Group to fund itself at 31 December 2012 comprises:

	2012 £m	2011 £m
Net debt	**216.4**	246.8
Stock finance	**531.5**	528.2
Pension deficit	**29.8**	8.0
	777.7	783.0

The Board's policy is to maintain a strong capital base to maintain market confidence and to sustain the development of the business, whilst maximising the return on capital to the Group's shareholders. The Group's strategy will be to maintain facilities appropriate to the working requirements of the Group whilst repaying the residual core acquisition debt described above. The Group seeks to grow organically and reduce its debt requirement through generating cashflow. The Group has set a Debt : Underlying EBITDA target of below 1.5 : 1. At 31 December 2012, the Debt : Underlying EBITDA ratio achieved was 2.0 : 1, calculated as follows:

	2012 £m	2011 £m
Underlying operating profit	**71.8**	74.4
Depreciation	**37.3**	35.8
Amortisation	**1.4**	1.4
Underlying EBITDA	**110.5**	111.6
Debt (being net debt as set out above)	**216.4**	246.8
Debt : Underlying EBITDA ratio	**2.0**	2.2

The key measures which management uses to evaluate the Group's use of its financial resources, and performance achieved against these in 2012 and 2011 are set out below:

	2012	2011
Underlying profit before tax (£m)	**36.4**	30.8
Underlying earnings per share (p)	**2.0**	2.3
Debt : Underlying EBITDA	**2.0**	2.2

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.2 Financial instruments and derivatives *continued*

The Group has from time to time repurchased its own shares in the market and cancelled them. There is no predetermined plan for doing this although the Group has permission from shareholders to buy back up to 10% of its equity at any one time. The Group has in the past used profits made on surplus property sales to purchase its own shares and cancel them in order to promote growth in earnings per share. In the near term, the Group expects not to follow this strategy but instead to use proceeds from the sales of surplus properties to either reinvest in the business or to reduce debt. The Group may also issue shares or purchase them in the market to satisfy share incentives issued to employees of the Group. The Group encourages employees to be shareholders of the Group, the Group-wide provision of a sharesave scheme being one example.

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

There were no changes to capital management in the year.

4.3 Net financing costs

Accounting policy

Finance income comprises interest income on funds invested, return on pension scheme assets and gains on hedging instruments that are recognised in profit and loss. Interest income is recognised as it accrues in profit and loss, using the effective rate method.

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

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

Finance expense

Recognised in profit and loss	**2012 £m**	2011 £m
Interest payable on bank borrowings and loan notes	**19.7**	29.0
Refinancing fees and costs (non-underlying - see note 2.6)	**-**	17.7
Vehicle stocking plan interest	**14.4**	13.8
Interest payable on finance leases	**0.2**	0.1
Interest on pension scheme obligations (non-underlying - see note 2.6)	**18.8**	20.7
Less: interest capitalised	**(0.1)**	(0.1)
Total interest expense being interest expense in respect of financial liabilities held at amortised cost	**53.0**	81.2
Net fair value expense in respect of hedging relationships (see note 4.2)	**-**	0.2
Unwinding of discounts in contract hire residual values	**1.7**	1.6
Total finance expense	**54.7**	83.0

Interest of £0.1m (2011 : £0.1m) has been capitalised during the year on assets under construction at an average rate of 3.85% (2011 : 3.82%).

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.3 Net financing costs *continued*

Finance income

Recognised in profit and loss	2012 £m	2011 £m
Interest receivable on bank deposits	**0.5**	0.6
Interest on VAT refunds (non-underlying - see note 2.6)	**1.9**	5.1
Interest on pension scheme assets (non-underlying - see note 2.6)	**22.2**	23.3
Total finance income	**24.6**	29.0

4.4 Capital and reserves

Ordinary share capital

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

	Number	£m
Allotted, called up and fully paid shares of 5p each at 31 December 2011	1,419,646,622	**71.0**
Issued during the year	17,025,672	**0.8**
Allotted, called up and fully paid shares of 5p each at 31 December 2012	1,436,672,294	**71.8**

During the year 17,025,672 (2011 : nil) ordinary shares were issued pursuant to the exercise of warrants granted in connection with the Group's refinancing in 2009. The consideration received on allotment of these shares was in the form of a cancellation of a specific number of warrants determined on the basis of the open market value of the Company's ordinary shares at the time of exercise and to apply that sum cancelled in satisfaction of the exercise price of the remaining warrants. The number of warrants cancelled under this arrangement was 8,371,823 (2011 : nil) in settlement of consideration of £0.8m (2011 : £nil).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Warrants

During 2009 as part of the Group refinancing 49,202,040 warrants were issued with an exercise price of 5.00p. The number of warrants outstanding were adjusted to reflect the impact of the rights issue. Movements in the outstanding warrants and the amounts of outstanding warrants at 31 December 2012 and 31 December 2011 are shown in the table below:

Exercise period	Date of grant	Exercise Price Per Share (p)	At 31 December 2011 Number	Exercised Number	Lapsed Number	At 31 December 2012 Number
15 May 2009 to 31 December 2014	15 May 2009	5.00	31,733,532	(11,350,448)	(5,581,215)	14,801,869
26 June 2009 to 31 December 2014	26 June 2009	5.00	15,866,765	(5,675,224)	(2,790,608)	7,400,933
			47,600,297	(17,025,672)	(8,371,823)	22,202,802

The warrants outstanding at 31 December 2012 have a weighted contractual life of 2.0 years. All share warrants are settled in equity.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.4 Capital and reserves *continued*

Capital redemption reserve

The capital redemption reserve has arisen following the purchase by the Company of its own shares and comprises the amount by which distributable profits were reduced on these transactions in accordance with s733 of the Companies Act 2006.

Other reserves

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

Own shares held by ESOP trust

Transactions of the Group-sponsored ESOP trust are included in the Group financial statements. In particular, the trust's purchases / sales of shares in the Company which are classified as own shares are debited / credited directly to equity. When own shares are sold or re-issued, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

The market value of the investment in the Company's own shares at 31 December 2012 was £3.6m (2011 : £1.6m), being 20.8m (2011 : 20.8m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2011 : £0.40). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2012 was £8.0m (2011 : £8.0m). The investment in own shares represents shares in the Company held by Investec Trust Jersey Limited (employee share ownership trusts) which may subsequently be awarded to Executive Directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme and the 1998 Pendragon Sharesave Scheme. Details of the plans are given in the Directors' Remuneration Report on pages 62 to 80.

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.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.5 Dividends

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

The Board are recommending a final dividend for 2012 of 0.1p (2011 : nil) per ordinary share equating to £1.4m (2011 : £nil) in total.

4.6 Share based compensation

Accounting policy

The Group operates a number of employee share option schemes and an executive share ownership plan "exsop" awarded in 2010. Share warrants issued in 2009 as part of the refinancing are all considered to be equity settled share option schemes and therefore accounted for as such under IFRS 2 'Share based payment'. The fair value at the date at which the share options are granted is recognised in the income statement on a straight line basis over the vesting period, taking into account the number of options that are expected to vest. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The number of options that are expected to become exercisable is reviewed at each balance sheet date and if necessary estimates are revised.

Share Schemes

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

	Weighted average exercise price 2012	**Number of options millions 2012**	Weighted average exercise price 2011	Number of options millions 2011
Outstanding at beginning of period	**18.14p**	**39.7**	18.35p	42.8
Exercised during the period	**-**	**-**	13.37p	(0.5)
Lapsed during the period	**21.08p**	**(3.6)**	11.68p	(12.3)
Granted during the period	**13.50p**	**13.0**	8.82p	9.7
Outstanding at the end of the period	**16.69p**	**49.1**	18.14p	39.7
Exercisable at the end of the period	**24.11p**	**17.8**	34.02p	8.1

The options outstanding at 31 December 2012 have an exercise price in the range of 8.82 pence to 93.25 pence and a weighted contractual life of 5.7 years. All share options are settled in equity.

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.6 Share based compensation *continued*

Movements in the number of options to acquire ordinary shares under the Group's various share option schemes, together with exercise prices and the outstanding position at 31 December 2012 were as follows:

Exercise period	Date of grant	Scheme description	Exercise Price Per Share (p)	At 31 December 2011 Number	Granted Number	Lapsed Number	At 31 December 2012 Number
24 March 2006 to 23 March 2013	24 March 2003	1999 Executive Scheme	16.74p	516,650	-	(15,245)	501,405
24 March 2008 to 23 March 2013	24 March 2003	1999 Executive Scheme	16.74p	2,450,894	-	-	2,450,894
30 September 2006 to 29 September 2013	30 September 2003	1999 Executive Scheme	28.70p	599,938	-	(42,015)	557,923
20 September 2009 to 19 September 2014	20 September 2004	1999 Executive Scheme	42.98p	4,306,584	-	-	4,306,584
1 July 2012 to 31 December 2012	1 July 2005	1998 Sharesave Scheme	43.13p	107,723	-	-	107,723
1 July 2011 to 31 December 2011	1 July 2006	1998 Sharesave Scheme	93.25p	267,740	-	(267,740)	-
1 July 2013 to 31 December 2013	1 July 2006	1998 Sharesave Scheme	93.25p	55,693	-	-	55,693
1 August 2012 to 31 January 2013	13 July 2009	2008 Sharesave Scheme	17.61p	11,708,114	-	(1,823,590)	9,884,524
20 September 2013 to 19 September 2020	20 September 2010	2009 Executive Scheme	14.22p	9,992,814	-	(497,189)	9,495,625
7 October 2014 to 6 October 2021	6 October 2011	2009 Executive Scheme	8.82p	9,733,382	-	(495,267)	9,238,115
31 March 2015 to 30 March 2022	30 March 2012	2009 Executive Scheme	13.50p	-	13,028,296	(500,000)	12,528,296
				39,739,532	13,028,296	(3,641,046)	49,126,782

On 30 March 2012 options over 13,028,296 ordinary shares of 5p were granted pursuant to the 2009 Executive Option Scheme at an exercise price of 13.50p per share.

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

The vesting conditions attaching to the 1998 and 2008 Pendragon Sharesave schemes are that the option holder must contribute monthly to the scheme and be employed by the Group on the date of exercise.

All options are settled by physical delivery of shares.

The fair value of the services received in return for share options is measured by reference to the fair value of the options granted. The estimate of the fair value of the services received in respect of share option and sharesave 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 2012 is 6.5p (2011 : 7.6p).

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.6 Share based compensation *continued*

2009 Executive Scheme

	2012	2011
Number of share options granted in year	**13,028,296**	9,733,382
Weighted average share price (pence)	**13.50**	8.82
Weighted average exercise price (pence)	**13.50**	8.82
Weighted average fair value (pence)	**3.86**	4.15
Expected volatility (%)	**50.2%**	52.3%
Expected life (years)	**3.0**	3.0
Risk free rate (%)	**0.66%**	0.86%
Expected dividend yield (%)	**3.0%**	3.0%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the corresponding historical period with an adjustment made to exclude the abnormal period during the refinancing. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and team member turnover.

The Group recognised a total net expense of £0.9m as an employee benefit cost in respect of equity-settled share based payment transactions (2011 : £0.8m) included within administration costs.

4.7 Obligations under finance leases

Accounting policies

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

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

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.7 Obligations under finance leases *continued*

Finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Amounts payable under finance leases:				
Within one year	**0.1**	0.3	**-**	0.1
In the second to fifth years inclusive	**0.4**	0.4	**0.3**	0.4
After five years	**5.9**	6.0	**1.2**	1.1
	6.4	6.7	**1.5**	1.6
Less: future finance charges	**(4.9)**	(5.1)	**-**	-
Present value of lease obligations	**1.5**	1.6	**1.5**	1.6
Amount due for settlement within one year			**-**	0.1
Amount due for settlement in over one year			**1.5**	1.5
			1.5	1.6

The Group's obligations under finance leases comprise certain items of plant and equipment, the average lease term of which is 2 to 3 years and two properties on long term leases with a lease term of between 55 and 80 years. The effective interest rates are shown in note 4.2 above. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

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

4.8 Operating lease arrangements

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

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

The Group as lessee

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

	2012 £m	2011 £m
Within one year	**46.9**	44.3
In the second to fifth years inclusive	**166.3**	164.4
After five years	**489.9**	560.9
	703.1	769.6

SECTION 4 - FINANCING ACTIVITIES AND CAPITAL STRUCTURE

4.8 Operating lease arrangements *continued*

The Group leases a number of properties, the majority of which are motor vehicle showrooms with workshop and parts retail facilities, with varying lease periods. None of the leases includes contingent rentals. In addition there are other leases in respect of items of plant and equipment which includes the rental of motor vehicles hired for short term usage typically as courtesy cars.

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

		2012 £m	2011 £m
Operating lease rentals payable	- hire of plant and machinery	**4.9**	2.8
	- property rentals	**42.3**	44.2

The Group as lessor

Property rental income earned during the year was £3.1m (2011 : £3.1m). No contingent rents were recognised in income (2011 : £nil). The Group currently receives rental income on 23 (2011 : 23) properties on short term leases.

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

	2012 £m	2011 £m
Within one year	**3.0**	2.9
In the second to fifth years inclusive	**11.6**	11.8
After five years	**24.0**	26.1
	38.6	40.8

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

SECTION 5 - PENSION SCHEMES

This section explains the pension scheme obligations of the Group:

5.1 Pension obligations

Accounting policy

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

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

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

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

In accordance with IFRIC 14 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 Group support the availability of refunds or recoverability through agreed reductions in future contributions. In addition, if there is an obligation for the Group to pay deficit funding, this is also recognised.

Under IAS 24, the pension schemes are related parties of the Group. At 31 December 2012 there was an outstanding balance of £0.8m (2011 : £0.8m) payable to the pension schemes. As set out below, the Central Asset Reserve results in a non-controlling interest being recorded amounting to £33.8m (2011 : £34.3m).

Pension obligations

The Group operated six defined benefit pension schemes (one of which had 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.

During the year the trustees initiated the process of merging the six defined benefit schemes into one new defined benefit scheme, "the Pendragon Group Pension Scheme", which remains closed to future benefits. At 31 December 2012 the remaining assets of the six schemes had largely been transferred into the new scheme. The benefits previously accrued in the six schemes were transferred without amendment of the benefit entitlement of members to the new scheme. The final legal formalities of closing the six defined benefit schemes will be completed in 2013. The pension information set out in this section includes the new merged scheme and the previous six schemes.

Pendragon Group Pension Scheme

The Pendragon Group Pension Scheme is a funded defined benefit scheme that was set up during the year to receive the assets and liabilities of the Group's existing six defined benefit schemes, as set out below. The first actuarial valuation will be carried out in 2013 as at 31 December 2012.

All six schemes which are in the process of being merged into the Pendragon Group Pension Scheme have had formal actuarial valuations as at 5 April 2011. All the actuarial valuations have been issued under the UK Government's Scheme Specific Funding arrangements.

Pendragon Pension Plan

The Pendragon Pension Plan is a funded defined benefit scheme with a defined contribution section. The last actuarial valuation of the Plan was carried out as at 5 April 2011 using the projected unit credit method. At this date the market value of the Plan's assets relating to the defined benefit section was £133.6m; these assets represented 85.5% of the value of the technical provisions (excluding defined contribution assets). The main assumptions used for this valuation were that the annual rate of return on existing investments would be 6.9% and the annual rate of pension increases would be between 2.8% - 3.5%.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

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 £nil, based upon actuarial advice.

CD Bramall Pension Scheme

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

The employer contributions paid to the defined benefit section of the Plan during the year were £nil, 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 2011 using the projected unit credit method. At the valuation date, the market value of assets was £30.5m; these assets represented 87.0% of the value of the technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 7.1% and the annual rate of pension increases would be between 2.8% - 3.0%.

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

CD Bramall Retirement Benefits Scheme

The CD Bramall Retirement Benefits Scheme is a funded defined benefit scheme. The defined contribution section has been wound up. The last actuarial valuation was carried out as at 5 April 2011 using the projected unit credit method. At the valuation date, the market value of assets relating to the defined benefit section was £7.4m; these assets represented 94.1% of the value of the technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 6.7% and the annual rate of pension increases would be between 2.8% - 3.5%.

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

Quicks Pension Scheme

The Quicks Pension scheme is a funded defined benefit scheme. The last actuarial valuation was carried out as at 5 April 2011 using the projected unit credit method. At the valuation date, the market value of assets was £95.9m; these assets represented 92.2% of the value of the technical provisions. The main assumptions used for this valuation were that the annual rate of return on existing investments would be 6.2% and the annual rate of pension increases would be between 3.3% - 3.6%.

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

An IFRIC 14 surplus of £4.8m arose at 31 December 2011. At 31 December 2012 there was no IFRIC 14 adjustment.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Following the implementation of the Central Asset Reserve, there are currently no additional deficit funding contributions payable to the pension schemes. Accordingly there is no IFRIC 14 adjustment in respect of deficit funding in 2012 or in 2011.

Reg Vardy Retirement Scheme

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

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

Stakeholder arrangements

With effect from April 2006, new contributions to the defined contribution sections of the schemes ceased. For the employees affected the Group offered to pay contributions to a stakeholder arrangement with Friends Provident. This arrangement was also made available to the employees affected by the closure of the defined benefit sections of the schemes on 30 September 2006. A Group Self Invested Personal Pension arrangement with Legal & General replaced the Friends Provident arrangement from 1 January 2010. Total contributions paid by the Group in 2012 to the Legal & General arrangement were £3.5m (2011 : £3.7m).

Central Asset Reserve

On 13 July 2011 the Group agreed an asset-backed cash payment arrangement with the Trustees of the UK pension schemes to help address the UK pension funding deficit. In connection with the arrangement certain UK freehold properties were transferred to a limited partnership established by the Group. The partnership is controlled by and its results are consolidated by the Group. The fair value of the assets transferred was £34.5m. On 13 July 2011, the Group made a special contribution to the UK pension schemes of £34.5m and on the same date the UK pension schemes used this contribution to acquire a limited interest in the partnership for its fair value of £35.8m. The UK pension schemes' partnership interest entitles them to a distribution from the income of the partnership of £2.5m in the first 12 months since inception, rising at 2.25% per annum on the anniversary date over the next 20 years. The CAR incorporates a clause allowing the company, at its discretion, to cease payments to the UK pension schemes in the event that the Company is not paying dividends. For this reason, the CAR is classified as a non-controlling interest in these accounts. In the event that payments to the UK pension schemes do cease under this discretionary right, until such time as the Company recommences the payment of dividends the life of the CAR is extended and could continue to operate indefinitely. At inception the discounted value of the cash distributions was assessed at £34.5m which was recognised as a pension plan asset and as a non-controlling interest in equity. Following the implementation of the CAR, there are currently no additional deficit funding contributions payable to the pension schemes. Accordingly there is no IFRIC 14 adjustment in respect of deficit funding in 2012 or 2011.

The key assumptions incorporated in the valuation of the CAR were the gross cashflows receivable by the UK pension schemes, a funding trigger mechanism which results in payments to the CAR being suspended if the valuation of the UK pension schemes on a technical provision basis is greater than 105% of the level at April 2011 or 100% of any future technical provision basis (whichever is the greater) and the discount rate applied to those cashflows.

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

IAS 19 assumptions

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

	2012	2011	2010
Inflation - RPI	**2.90%**	3.00%	3.50%
Inflation - CPI	**2.10%**	2.20%	3.00%
Rate of increase in salaries	**n/a**	n/a	n/a
Rate of increase to pensions in payment	**2.67%***	2.73%	3.15%
Discount rate	**4.35%**	4.85%	5.40%
Mortality table assumption **	**S1PMA CMI 2011 M (1%) / S1PMA CMI 2011 F (1%)**	S1PMA CMI 2011 M (1%) / S1PMA CMI 2011 F (1%)	S1PMA CMI 2009 M (1%) / S1PMA CMI 2009 F (1%)

* A full breakdown of the assumptions for the rates of increase to pensions in payment for the 31 December 2012 valuation is as follows:

RPI to max 5%	2.90%
RPI to max 3%	2.70%
RPI to min 3% to max 5%	3.20%
CPI to max 5%	2.10%
CPI to max 3%	2.10%
CPI to min 3% to max 5%	3.00%

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

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase / decrease by 0.1%	Decrease / increase of £7.7m
Rate of inflation	Increase / decrease by 0.1%	Increase / decrease of £5.9m

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

	2012	2011	2010
Equities	**7.80%**	7.80%	8.00%
Bonds	**4.70%**	4.70%	5.40%
Gilts	**2.80%**	2.80%	4.20%
Central Asset Reserve	**5.90%**	5.90%	n/a
Cash	**0.50%**	0.50%	0.50%

The weighted average expected long term rates of return were:

	2012	2011	2010
	5.30%	5.76%	6.53%

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

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 2012 and differ from those used for the earlier independent statutory actuarial valuations explained above.

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

	2012 years	2011 years	2010 years
Males aged 45	**23.5**	23.4	23.2
Females aged 45	**25.9**	25.9	25.4
Males aged 65	**22.2**	22.1	21.8
Females aged 65	**24.4**	24.3	23.8

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

	2012 £m	2011 £m	2010 £m
Equities	**228.0**	206.0	212.5
Bonds	**16.2**	14.1	13.2
Gilts	**117.6**	130.8	108.0
Central Asset Reserve	**39.8**	39.7	-
Cash	**3.7**	4.4	7.8
Fair value of scheme assets	**405.3**	395.0	341.5
Present value of funded defined benefit obligations	**(435.1)**	(398.2)	(389.9)
	(29.8)	(3.2)	(48.4)
Adjustment in respect of minimum funding requirement	**-**	-	(21.3)
Adjustment in respect of non-recognition of surplus	**-**	(4.8)	-
Net liability on the balance sheet	**(29.8)**	(8.0)	(69.7)

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

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

	2012 £m	2011 £m
Net liability for defined benefit obligations at 1 January	**(8.0)**	(69.7)
Contributions received	**0.2**	45.3
Income recognised in the income statement	**2.8**	2.6
Actuarial gains and losses recognised in equity	**(29.6)**	(2.7)
Adjustment in respect of minimum funding requirement	**-**	21.3
Adjustment in respect of non-recognition of surplus	**4.8**	(4.8)
Net liability for defined benefit obligations at 31 December	**(29.8)**	(8.0)

	2012 £m	2011 £m
Actual return on assets	**32.1**	20.9
Expected contributions in following year	**-**	2.0

Total in the income statement

	2012 £m	2011 £m
Losses on settlements or curtailments	**0.6**	-
Interest on obligation	**18.8**	20.7
Expected return on assets	**(22.2)**	(23.3)
	(2.8)	(2.6)

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

	2012 £m	2011 £m
Administration costs	**0.6**	-
Finance costs	**18.8**	20.7
Finance income	**(22.2)**	(23.3)
	(2.8)	(2.6)

For its 2013 financial statements the Group will apply IAS 19 - Employee benefits (2011) which prescribes the interest amount recognised in the income statement is based on the net of the defined benefit assets and liabilities, based on high-quality corporate bond rates. Had this been applied in these financial statements the net finance income for 2012 of £3.4m would have been a net finance cost of £0.4m. For 2013 the net finance cost is expected to be £1.3m. There will be no impact to the balance sheet.

Actuarial gains and losses recognised directly in equity

	2012 £m	2011 £m
Cumulative amount at 1 January	**(55.3)**	(52.6)
Recognised during the period	**(29.6)**	(2.7)
Cumulative amount at 31 December	**(84.9)**	(55.3)

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

Amounts recognised in the consolidated statement of comprehensive income

	2012 £m	2011 £m
Difference between actual and expected return on scheme assets	7.7	(3.3)
Experience (loss) / gain on scheme liabilities	(6.3)	2.5
Changes in assumptions underlying the present value of scheme obligations	(31.0)	(1.9)
	(29.6)	(2.7)
Adjustment in respect of minimum funding requirement and non-recognition of surplus	4.8	16.5
	(24.8)	13.8

Changes in the present value of the defined benefit obligation

	2012 £m	2011 £m
Opening present value of defined benefit obligation	398.2	389.9
Interest cost	18.8	20.7
Losses on settlements or curtailments	0.6	-
Liabilities extinguished on settlements	(5.9)	-
Actuarial gains / (losses)	37.3	(0.6)
Less benefits paid	(13.9)	(11.8)
Closing present value of defined benefit obligation	435.1	398.2

Movement in fair value of scheme assets during the period

	2012 £m	2011 £m
Opening fair value of assets	395.0	341.5
Expected return on assets	22.2	23.3
Actuarial gains / (losses) on assets	7.7	(3.3)
Assets distributed from settlements	(5.9)	-
Contributions by employer	0.2	45.3
Less benefits paid	(13.9)	(11.8)
End of period	405.3	395.0

SECTION 5 - PENSION SCHEMES

5.1 Pension obligations *continued*

History of experience adjustments

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligation	**435.1**	398.2	389.9	378.3	313.8
Fair value of scheme assets	**405.3**	395.0	341.5	296.5	251.3
Adjustment in respect of minimum funding requirement and non-recognition of surplus	**-**	(4.8)	(21.3)	-	(2.9)
Deficit in schemes	**29.8**	8.0	69.7	81.8	65.4
Experience adjustments on scheme liabilities:					
Amount	**37.3**	(0.6)	1.5	57.2	(9.7)
Percentage of scheme liabilities (%)	**8.6%**	(0.2%)	0.4%	15.1%	(3.1%)
Experience adjustments on scheme assets:					
Amount	**7.7**	(3.3)	21.4	29.0	(81.4)
Percentage of scheme liabilities (%)	**1.8%**	(0.8%)	5.5%	7.7%	(25.9%)

SECTION 6 - OTHER NOTES

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

6.1 Business combinations

Accounting policy

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

Acquisitions on or after 1 January 2010
For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:
• the fair value of the consideration transferred; plus
• the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
• the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

SECTION 6 - OTHER NOTES

6.1 Business combinations *continued*

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

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

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

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

Acquisitions prior to 1 January 2004 (date of transition to IFRSs). As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

Activity

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

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

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

Acquisition related costs are less than £0.1m and are included in administration expenses.

The goodwill acquired represents the excess of consideration paid over the fair value of identifiable assets and liabilities and represents the expected benefits from expanding the existing representation with BMW and MINI in the Yorkshire area. The goodwill is expected to be deductible for tax purposes over the life of the asset.

The acquired receivables had both a gross contractual value and fair value of £0.2m and have been subsequently collected.

SECTION 6 - OTHER NOTES

6.1 Business combinations *continued*

The acquired business contributed revenue of £42.1m and a profit before taxation of £0.4m in the period since acquisition. As the business was acquired in the first week of the year those values are representative of what the business would have contributed had the business been acquired at the start of the annual reporting period.

There were no business combinations in the previous year.

6.2 Business disposals

Accounting policy

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

Activity

During the year the Group disposed of five dealerships representing Honda, Jaguar, Land Rover and Renault franchise points.

Net assets at the date of disposal:

	Net book value £m
Goodwill	**0.5**
Property, plant and equipment	**1.2**
Inventories	**1.0**
Trade and other payables	**(0.1)**
	2.6
Loss on sale of businesses	**(0.7)**
Proceeds on sale satisfied by cash and cash equivalents	**1.9**

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

Proceeds on sale satisfied by cash and cash equivalents for the previous period was £0.9m.

6.3 Related party transactions

Subsidiaries

The Group's ultimate parent company is Pendragon PLC. A listing of all principal trading subsidiaries is shown within the financial statements of the Company on page 159.

SECTION 6 - OTHER NOTES

6.3 Related party transactions *continued*

Joint venture

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

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

	2012 £m	2011 £m
Rent paid to related party	**17.5**	19.3
Management fees and sales fees received from related party	**0.1**	0.1
Amounts owed to related party	**-**	0.1
Amounts owed by related party	**0.5**	0.5

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 62 to 80.

Directors of the Company and their immediate relatives control 3.17% of the ordinary shares of the Company.

During the year key management personnel compensation was as follows:

	2012 £m	2011 £m
Short term employee benefits	**2.0**	2.2
Post-employment benefits	**0.2**	0.2
Share based payments	**0.8**	0.4
	3.0	2.8

6.4 Contingent liabilities and contingent assets

The Group is in discussion with HM Revenue and Customs over issues which may result in both additional amounts of VAT payable and VAT receivable to be recognised in future periods and although these amounts, if any, could potentially be significant, it is not possible at present to quantify them. Accordingly no amounts have been included in the 2012 financial statements in respect of these issues.

COMPANY BALANCE SHEET

At 31 December 2012

	Note	2012 £m	2011 £m
Fixed assets			
Investments	5	**850.6**	850.6
Loans to subsidiary undertakings		**90.0**	90.0
		940.6	940.6
Current assets			
Debtors	6	**22.7**	22.2
Cash at bank and in hand		**10.5**	18.2
		33.2	40.4
Creditors: amounts falling due within one year	7	**(473.4)**	(510.2)
Net current liabilities		**(440.2)**	(469.8)
Total assets less current liabilities		**500.4**	470.8
Creditors: amounts falling due after more than one year	8	**(226.7)**	(303.7)
Net assets		**273.7**	167.1
Capital and reserves			
Called up share capital	11	**71.8**	71.0
Share premium account	12	**56.8**	56.8
Capital redemption reserve	12	**2.5**	2.5
Other reserves	12	**13.9**	13.9
Profit and loss account	12	**128.7**	22.9
Equity shareholders' funds		**273.7**	167.1

Approved by the Board of Directors on 19 February 2013 and signed on its behalf by:

T G Finn
Chief Executive

T P Holden
Finance Director

Registered Company Number: 2304195

The notes on pages 157 to 163 form part of these financial statements

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 December 2012

	2012 £m	2011 £m
Profit / (loss) for the financial year	**106.6**	(32.8)
Proceeds from issue of new ordinary shares net of costs	**-**	70.8
Net increase to shareholders' funds	**106.6**	38.0
Opening shareholders' funds	**167.1**	129.1
Closing shareholders' funds	**273.7**	167.1

The notes on pages 157 to 163 form part of these financial statements

1 Accounting policies

(a) Accounting convention The financial statements have been prepared in accordance with applicable UK accounting standards using the historical cost convention except for certain financial instruments which are stated at their fair value. The financial statements have been prepared on a going concern basis.

(b) Deferred taxation Full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date, except as follows:

(i) tax payable on the future remittance of the past earnings of subsidiaries is provided only to the extent that dividends have been accrued as receivable or a binding agreement to distribute all past earnings exists;

(ii) deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

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

In accordance with its treasury policy, the Company has swapped its fixed rate USD liabilities into floating rate GBP liabilities by utilising cross currency interest rate swaps.

Fair value hedges
Where a derivative financial instrument hedges the changes in fair value of recognised assets or liabilities, any gain or loss is recognised in profit and loss. The hedged item is also stated, separately from the derivative, at fair value in respect of the risk being hedged with any gain or loss also recognised in profit and loss. This will result in variations in the balance sheet values of the gross debt and the offsetting derivatives as the market value fluctuates.

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

(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.

(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.

1 Accounting policies *continued*

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

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

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

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

2. Profit and loss account of the Company

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented. The profit after taxation attributable to the Company dealt with in its own accounts for the year ended 31 December 2012 is £106.6m (2011 : loss £32.8m).

3. Directors

Total emoluments of directors (including pension contributions) amounted to £2.8m (2011 : £2.8m). Information relating to directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 62 to 80.

The directors are the only employees of the Company.

4. Dividends

A final dividend in respect of 2012 of 0.1p (2011 : nil) per share amounting to a total of £1.4m (2011 : £nil) is proposed by the Board. The dividend proposed will not be accounted for until it has been approved at the Annual General Meeting.

5 Investments

	Shares in joint venture £m	Shares in subsidiary undertakings £m	**Total £m**
At 31 December 2011 and at 31 December 2012	-	850.6	**850.6**

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

The investment in PPH0 Limited was fully impaired in 2008.

5 Investments *continued*

Shares in subsidiary undertakings are stated at cost. Pendragon PLC owns directly or indirectly 100 percent of the issued ordinary share capital of the following principal subsidiaries.

Name	Activity
Incorporated in Great Britain:	
Alloy Racing Equipment Limited	Motor vehicle dealer
Bramall Quicks Dealerships Limited	Motor vehicle dealer
CD Bramall Dealerships Limited	Motor vehicle dealer
Chatfields Limited	Motor vehicle dealer
Chatfield Martin Walters Limited	Motor vehicle dealer
Derwent Vehicles Limited	Motor vehicle dealer
National Fleet Solutions Limited	Motor vehicle dealer
Pendragon Contracts Limited	Contract hire & fleet management
Pendragon Finance & Insurance Limited	Motor vehicle finance and insurance services
Pendragon Javelin Limited	Motor vehicle dealer
Pendragon Management Services Limited	Management services
Pendragon Motor Group Limited	Motor vehicle dealer
Pendragon Motorcycles Limited	Motor vehicle dealer
Pendragon Orient Limited	Motor vehicle dealer
Pendragon Premier Limited	Motor vehicle dealer
Pendragon Property Holdings Limited	Property holdings
Pendragon Sabre Limited	Motor vehicle dealer
Pinewood Technologies PLC*	Computer systems and services
Quicks Car Supermarkets Limited	Motor vehicle dealer
Quicks Motor Stores Limited	Motor vehicle repairs
Reg Vardy (MML) Limited	Motor vehicle repairs
Reg Vardy (VMC) Limited**	Motor vehicle dealer
Reg Vardy Limited*	Motor vehicle dealer
Stripestar Limited	Motor vehicle dealer
Vardy Marketing Limited	Marketing services
Victoria (Bavaria) Limited	Motor vehicle dealer
Incorporated in the United States of America:	
Bauer Motors Inc.	Motor vehicle dealer
Penegon West Inc.	Motor vehicle dealer
Penegon Mission Viejo Inc.	Motor vehicle dealer
Penegon Newport Beach Inc.	Motor vehicle dealer

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

Other interests

Pendragon Scottish Limited Partnership has taken advantage of the exemption confirmed by regulation 7 of the Partnership (Accounts) Regulations 2008 not to file financial statements as the partnership is dealt within the consolidated financial statements of Pendragon PLC.

6 Debtors

	2012 £m	2011 £m
Amounts due within one year:		
Corporation tax	**7.9**	-
Other debtors	**0.1**	0.1
	8.0	9.1
Amounts due after more than one year:		
Deferred tax (see note 9)	**0.5**	0.6
Derivative financial instruments	**14.2**	21.5
	14.7	22.1
	22.7	22.2

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

7 Creditors: amounts falling due within one year

	2012 £m	2011 £m
Bank loans	**27.7**	36.0
9.310% USD 110m loan notes 2014	**6.5**	6.5
9.310% USD 67m loan notes 2014	**4.0**	3.9
9.834% GBP 17m loan notes 2014	**1.9**	1.9
Amounts due to subsidiary undertakings	**431.8**	456.8
Corporation tax	**-**	1.3
Other creditors and accruals	**1.5**	3.8
	473.4	510.2

8 Creditors: amounts falling due after more than one year

	2012 £m	2011 £m
Bank loans (repayable between one and two years)	**142.9**	35.5
Bank loans (repayable between two and five years)	**0.2**	164.9
9.310% USD 110m loan notes 2014 (formerly 2012)	**44.6**	55.3
9.310% USD 67m loan notes 2014	**27.1**	33.8
9.834% GBP 17m loan notes 2014	**11.9**	14.2
	226.7	303.7

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

9 Deferred tax

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

	Deferred tax £m
At 31 December 2011	**0.6**
Profit and loss account	**(0.1)**
At 31 December 2012	**0.5**

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

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

	2012 £m	2011 £m
Other timing differences	**0.5**	0.6

10 Share based payments

During 2009 as part of the Group refinancing 49,202,040 warrants were issued with an exercise price of 5.00p. The number of warrants outstanding were adjusted to reflect the impact of the rights issue. Movements in the outstanding warrants and the amounts of outstanding warrants at 31 December 2012 and 31 December 2011 are shown in the table below:

Exercise period	Date of grant	Exercise Price Per Share (p)	At 31 December 2011 Number	Exercised Number	Lapsed Number	At 31 December 2012 Number
15 May 2009 to 31 December 2014	15 May 2009	5.00	31,733,532	(11,350,448)	(5,581,215)	14,801,869
26 June 2009 to 31 December 2014	26 June 2009	5.00	15,866,765	(5,675,224)	(2,790,608)	7,400,933
			47,600,297	(17,025,672)	(8,371,823)	22,202,802

The warrants outstanding at 31 December 2012 have a weighted contractual life of 2.0 years. All share warrants are settled in equity.

The fair value of the services received in return for share warrants is measured by reference to the fair value of the warrants granted. The estimate of the fair value of the services received in respect of share warrants is measured using the Black-Scholes option pricing model. The weighted average fair value of the warrants at the date of grant for those that are outstanding at 31 December 2012 is 16.2 pence (2011 : 16.2 pence).

11 Called up share capital

	Number	**£m**
Allotted, called up and fully paid shares of 5p each at 31 December 2011	1,419,646,622	**71.0**
Issued during the year	17,025,672	**0.8**
Allotted, called up and fully paid shares of 5p each at 31 December 2012	1,436,672,294	**71.8**

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 2012 are fully disclosed above on page 140 of this report.

12 Reserves

	Share premium account £m	**Capital redemption reserve £m**	**Other reserves £m**	**Profit and loss account £m**
At 31 December 2011	56.8	2.5	13.9	22.9
Profit for the financial year	-	-	-	106.6
On issue of shares	-	-	-	(0.8)
At 31 December 2012	**56.8**	**2.5**	**13.9**	**128.7**

The market value of the investment in the Company's own shares at 31 December 2012 was £3.6m (2011 : £1.6m), being 20.8m (2011 : 20.8m) shares with a nominal value of 5p each, acquired at an average cost of £0.40 each (2011 : £0.40). The amounts deducted from retained earnings for shares held by ESOP trusts at 31 December 2012 was £8.0m (2011 : £8.0m). The investment in own shares represents shares in the Company held by Investec Trust Jersey Limited (employee share ownership trusts) which may subsequently be awarded to Executive Directors and employees under the Pendragon 1999 Approved Executive Share Option Scheme, Pendragon 1999 Unapproved Executive Share Option Scheme and the 1998 Pendragon Sharesave Scheme. Details of the plans are given in the Directors' Remuneration Report on pages 62 to 80.

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.

13 Financial instruments and derivatives

	2012 £m	2011 £m
Changes in fair value expensed to profit and loss	**-**	(0.2)

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

14 Pensions

The Company is a member of a funded Group-wide pension scheme, the Pendragon Group Pension Scheme 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 2012 the scheme had a deficit on an FRS 17 basis of £29.8m (2011 : The Company was a member of the Pendragon Pension Plan which had a deficit at 31 December 2011 of £1.2m).

The Pendragon Group Pension Scheme is a funded defined benefit scheme that was set up during the year to receive the assets and liabilities of the Pendragon Group's existing six defined benefit schemes. The first actuarial valuation will be carried out in 2013 as at 31 December 2012. Further details of the Pendragon Group Pension Scheme is given in note 5.1 of the consolidated financial statements.

The Company has no outstanding pension contributions (2011 : £nil).

15 Related party transactions

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

Transactions with related parties
The transaction with directors of the Company and the joint venture PPH0 Limited are set out in note 6.3 to the consolidated financial statements.

16 Contingent liabilities

(a) The Company has entered into cross-guarantees with its bankers whereby it guarantees payment of bank borrowings in respect of UK subsidiary undertakings.
(b) The Company has given performance guarantees in the normal course of business in respect of subsidiary undertaking obligations.

SHAREHOLDER INFORMATION

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

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5 YEAR GROUP REVIEW

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Revenue	**3,635.1**	3,465.8	3,575.0	3,191.7	4,162.4
Gross profit	**481.3**	470.6	499.4	492.1	543.2
Operating profit / (loss) before other income	**67.5**	77.6	62.9	55.6	(130.9)
Profit / (loss) before taxation	**37.8**	24.0	11.0	1.3	(194.0)
Net assets	**275.4**	267.2	111.2	105.9	113.7
Net borrowings (note 6)	**216.4**	246.8	325.5	315.4	357.3

Other financial information

	2012	2011	2010	2009	2008
Underlying profit before tax	**36.4**	30.8	25.2	10.1	(33.6)
Gross margin	**13.2%**	13.6%	14.0%	15.4%	13.1%
Total operating margin (note 1)	**2.0%**	2.2%	2.1%	1.7%	0.6%
After tax return on equity (note 2)	**10.7%**	21.0%	5.2%	0.7%	(73.8%)
Basic earnings per share (note 3)	**1.9p**	3.7p	0.6p	0.1p	(18.0p)
Underlying earnings per share (notes 3 and 4)	**2.0p**	2.3p	1.8p	0.8p	(2.5p)
Dividends per share (note 5)	**0.1p**	-	-	-	0.4p
Dividend cover (times)	**19.3**	-	-	-	(9.8)
Interest cover (times)	**2.3**	1.4	1.2	1.0	(2.6)
Debt : Underlying EBITDA (note 7)	**2.0**	2.2	2.8	3.1	4.4
Gearing (note 8)	**78.6%**	92.4%	292.7%	297.8%	314.2%

Business summary

	2012	2011	2010	2009	2008
Number of franchise points	240	235	245	276	301

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

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

note 3 Comparative earnings per share data has been restated for the impact of the bonus element of the Rights Issue in 2011.

note 4 Basic earnings per share adjusted to eliminate the effects of non-underlying operating, non-underlying finance and tax items, see note 2.8 of the financial statements.

note 5 Dividends per share are based on the interim dividend paid and final dividend proposed for the year and has been restated for the impact of the bonus element of the Rights Issue.

note 6 Net borrowings comprise interest bearing loans and borrowings, cash and cash equivalents and derivative financial instruments.

note 7 Full details of the calculation of the Debt : Underlying EBITDA ratio are given in note 4.2 to the financial statements.

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

Pendragon | PLC

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